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# REPORT

ON

Small Industries in India

BY

The International Planning Team

THE FORD FOUNDATION

MINISTRY OF COMMERCE & INDUSTRY  
GOVERNMENT OF INDIA

1954

*Price 9 annas or 10d.*

## THE FORD FOUNDATION

*March 31, 1954*

Dear Mr. Iengar:

I take pleasure in presenting herewith the Report of the International Planning Team on Small Industry in India. In a series of chapters it discusses some of the problems and opportunities now existing in the industrial economy of this nation.

The Report, in part, reviews certain policies, analyzes current conditions and prospects, and looks into possible solutions for the development of industry. This analysis has served as a basis for the conclusions and recommendations presented.

Both the team and The Ford Foundation have been gratified by the generous response and unfailing cooperation which was received from Government—Central, State and Local and from private organisations and individuals whose assistance was sought. I greatly appreciate their invaluable contributions to the team's work and the genuine desire to be helpful which they showed at all times.

Respectfully submitted,  
Douglas Ensminger,  
Representative in India.

Mr. H. V. R. Iengar  
Secretary  
Ministry of Commerce and Industry  
Government of India  
New Delhi

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## **SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS**

The Indian market is one of the largest potential domestic markets in the world. If this market is fully developed in both the cities and the villages, it can stimulate perhaps the greatest industrial revolution ever seen, and make India one of the foremost producing and consuming areas in the world.

In the field of agriculture, which necessarily was given first development priority, good progress is being made. The rate of development of small industries is, however, slow, far slower than is possible. Many small industries are now facing a crisis, deteriorating in output and in employment, and increasingly unable, because of declining demand and production, to pay better wages or lift the standard of living of its employees.

There are several reasons for this deterioration and this slow rate of progress: too little initiative on the part of private sector; too great reliance upon Government to take action; and upon Government purchasing orders; outdated production and marketing methods; lack of credit facilities and lack of systematic approach toward improvement.

The study team's major impression, however, is that the basic causes of present deficiencies in small industry are methods of management and production which fall far short of meeting modern demands for efficiency; plus reluctance or failure to adopt improved rationalized methods.

The challenge for rationalization must be met as part of a forward looking industrial programme that will encourage and accelerate evolutionary growth. Without rationalization, the natural talents of Indian workers and craftsmen are being wasted in a hopeless race against modern technology. Unless and until these workers are helped to produce more goods and more wealth, neither wages nor living standards can be raised. "You cannot divide what you do not first produce".

To prevent rationalization, to stop the processes of modernization, is not only illogical, it will force stagnation and retrogression of Indian small industry.

In large part resistance to modernization derives from fears, which are widespread, of technological unemployment. These fears are illfounded and unjustified. Perpetuation of inefficient outdated methods has more drastically reduced employment than any modernization could have done—and without opening prospects for the future.

Modernization on the other hand creates employment. Improvements mean more and better products at lower and lower cost price, and result in greatly expanded demands and markets, and thus expanded job opportunities. Reluctance or failure to appreciate this concept is not only responsible for many of the difficulties

observed, but are real obstacles in the way of any organic effort toward improvement.

Many of these fears stem from the belief that rationalization is an overnight process, throwing workers out of jobs in masses, as machines and labour saving methods are introduced. On the contrary, rationalizing industry is a relatively slow evolutionary process which takes years and which India should accelerate. In large part workers displaced by improved methods will be shifted to other jobs created by the modernization process. Any temporary unemployment should be absorbed by setting in motion a challenging public works programme, a capital investment in the human welfare of the people of this nation which should be made.

Without modernization Indian industries which cling to obsolete equipment are condemned to mediocrity and eventual elimination. Only by adopting efficient methods of production, as soon and as widely as possible, can small and village industry take advantage of the good opportunity it now has to lay a basis for a promising long term development.

This is not to say that handwork and manual skills do not have a place in the Indian economy. They have a permanent place. But it is unsound to use hand power for the sake of hand power, when machine power will enable industry to meet greater demands at greatly reduced cost, and enable Indian workers and craftsmen to produce according to their skills and capacities.

The study team is strongly of the opinion that for lasting industrial growth, private initiative should be encouraged to the fullest. The assumption, too widely held, that Government should assist in managerial responsibility, while profits remain with the manufacturer, is not conducive to a sound economic base for industrialization. While Government initiative, controls and guidance will be needed at the beginning of an industrial development programme, the Government should make it clear that it is anxious for the private sector to take the initiative, and firmly intends to withdraw from management control at the earliest possible date where it has been necessary for the Government to initiate action. The growth of active responsible independent small industries and a gradual rise of many among the more gifted artisans to the status of self reliant small industrialists will be an important contribution to the social and economic structure of India.

The team took as its basic task the finding of ways and means of ultimately providing more and better employment for the people, especially in rural areas. It is in substantial agreement in recommending a series of proposals which it believes, will lead to such increased employment.

The team has studied the commendable efforts that have been made to assist small industries. These efforts have been largely sporadic and have dealt chiefly with isolated segments of the problem. Lacking a systematic approach, they fall far short of making any appreciable impact toward the overall advancement of industrial development and no satisfactory overall solution or appreciable progress can be expected from them. It would be a false illusion to think otherwise.

The team has in consequence made an effort to base its proposals and recommendations on a systematic approach, not to the segmented problems of small industry, but to its overall problems—from raw materials supply, product design, techniques and equipment, to trade education, finance and credit, to the value of co-operatives and trade associations, and to marketing and distribution. It also recommends the setting up of pilot plants to demonstrate efficient methods of increasing production, raising wages and manufacturing higher quality products at lower cost. The team believes that such proposals will, if brought to successful fruition, make possible higher production and higher wages, and accelerate and enhance the progress now being made to foster the welfare of small industry and of India's village workers and craftsmen.

## **RECOMMENDATIONS**

### **I. Multi-purpose Institutes of Technology for Small Industry**

The Ministry of Commerce and Industry specifically requested the team to investigate the feasibility of an Institute of Technology for Small Industry, to meet needs for research and basic technical assistance, as well as for training.

The team recommends the establishment of not one but at least four such institutes located geographically so as better to serve the whole of India. In general, the Institutes would act as service agencies to impart simply and quickly to the small industrialist for his immediate use modern advances in science and technology, in business management, finance and marketing.

To achieve this purpose, the Institutes should:

- (i) initiate and carry on investigations and surveys of existing methods as well as conduct experimental and applied research for promoting development of small industry, e.g. concerning the broad technical field, improved tools, machinery, methods, raw materials, products of quality, marketing, credit, finance etc.
- (ii) disseminate the methods and results thus obtained to the industrialists, their deputies, or skilled workers. Dissemination and promotion of these improvements should be done through educational short refresher courses and information and consultation service given at the Institutes and at the Branch Units, and through mobile demonstration units and travelling industrial extension workers.

The Institutes should of course draw every possible benefit from existing facilities, such as research and scientific laboratories. Vocational and technical institutes giving comparatively long basic training to young prospective workers are now comparatively few in number and frequently use out-moded tools and methods. The proposed Institutes should lead and assist in bringing these institutions up to a higher general standard.

Each of the four Institutes should have a director, a trained staff and small advisory bodies. Overall control and direction should be vested in an Administrator at the Centre. The study team recommends for immediate action that the appropriate staff be appointed

and that activities be started in a modest way in at least two of the four Institutes with attention directed toward particular needs and services appropriate to the regions.

Highest priority should be given to the granting of full and clear authority to the Ministry of Commerce and Industry to set up and put in operation such Institutes.

## **II. Design and Methods of Supply for Quality Products in Handicrafts, Artcrafts and a Specialised Sector of Small Industry**

Indian handicrafts and small industries could produce and sell more both in India and abroad, and tap the growing "quality market" as soon as modern requirements of production and supply are met.

To increase distribution and sales of these products, however, the most urgent general needs are: (1) good design and technical quality; (2) reliable organization of supply; (3) co-ordinated promotion in India and abroad.

Some constructive efforts to meet these needs are now being made, but the study team is convinced that more substantial and faster progress is needed and possible, and would be assisted by setting up the following three types of organizations, as part of a long term development programme. These organizations should work in close co-operation with existing institutions in the field:

- (1) *A National School of Design.*—to serve as a centre for creative studies in design and fashion. The basic functions of the School would be to design and, in its workshops, prepare improved models suitable for commercial production and arrange to get these models in production; to train potentially good designers, conduct research; to organise exhibitions, information services and promotional activities and establish a network of communication between craftsmen, designers, and the public.

The School should be established and supported by the Central Government and have a field organization in contact with producers. It should be headed by an international authority of highest competence, with an independent advisory board chosen on merit alone, and a carefully trained and selected staff. It should be a completely independent institution. Income from its fees should be directly for expansion of its work.

- (2) *A Customers Service Corporation.*—to provide satisfactory channels of supply and a reliable procurement service for Indian and foreign buyers. Its main functions would be to conduct continual surveys of current production and productive capacity, to gather samples and information for Indian and foreign buyers; to make procurement service available to Indian and foreign buyers, actually acting as a buying agent; and finally, to assist craftsmen in getting credit and working capital to fill orders.

It is proposed that this Corporation would act on behalf of the buyers rather than represent small producers (as perhaps might seem more suitable at first glance) because

this is the only way to inspire initial confidence in the buyers who represent the purchasing power of the market.

The Corporation should have a central office in a port city, regional offices and branches in various states and production centres, with competent assistant buyers in each; and a carefully trained and selected staff throughout. It should receive normal commission fees for its work, and eventually plan to become economically self sustaining, perhaps by the third or fourth year.

- (3) *Export Development Offices*.—One in North America, one in Europe to promote and stimulate foreign trade in handicrafts and arcrafts, serve as contact with foreign buyers and their demands, and engage in promotional activities. Limited but highly competent personnel will be needed; and normal fees should be charged for services.

To attract both domestic and foreign buyers, the team recommends also organization of large scale and well publicized trade exhibitions of Indian crafts in one of India's major cities. This could be the first step as soon as the School of Design and the Customers' Service Corporation have shown their first results.

### **III. Credit and Finance**

Without proper financing there can be no efficient planning of small industry, nor purchase of material, nor production, nor marketing, nor any fair profit. Credit and finance problems must be tackled as part of the whole programme for industrial growth.

At the present time, the team finds, real finance does not seem to exist at all, and there is a severe lack of capital as well as credit, largely because of low productivity and over population in many branches of small industry. Small industries have no working capital for filling orders for buying raw materials or improved equipment. The commercial banks are apparently not able to grant credit to small industries.

The present economic difficulties of small business are so great that a very strong effort is needed if beneficial results are to be achieved. In this effort, however, the general principle must be that credit should chiefly be given to gain certain results, such as securing modern equipment and better utilization of manpower.

The team recommends the following actions and considerations:

- (a) that Commercial Banks delegate more authority to branches to make loans to small business, and work generally toward decentralizing more of their loan business.
- (b) that Commercial Banks establish Local Boards of Directors, or, if that is not feasible, at least set up Local Advisory Boards. In case of disagreement between the local management and the Advisory Boards, decision on loan applications should be referred to a higher authority.

- (c) that Co-operative Banks should expand into the industrial field.
- (d) that a system of loans against the security of real estate mortgages be considered and developed.
- (e) that, to encourage venture capital, the general atmosphere for conducting business be favourable, and fair chances of reasonable profits be considered essential.
- (f) that an adequate amount of Government funds, now allocated for small industry under the Five Year Plan, be set aside to provide loans for venture capital. A definite allocation of these funds should be made to the State Finance Corporation. (See item "g" below).
- (g) that State Finance Corporations, like those that have already been set up in some States, be established in all States, with a portion of their funds also set aside exclusively for the use of small industry, but for ordinary loans.
- (h) that a competent Field Organization be set up immediately to process loan applications from small industry within the framework of the State Directorates of Industries. This Organization would act as agent of the State Finance Corporations.
- (i) that a sound system of instalment credit, primarily to spur purchase of modernizing machinery and equipment (not excluding consumer goods) be considered.

#### **IV. Trade Associations**

At present trade associations, that is, voluntary associations of members of a given industry or trade, are very few in India; many exist only on paper. Trade associations are an indispensable part of a democratic society, and play an important role in economic life and industrial growth. When properly established and functioning, such associations help acquaint members of new methods and techniques and stimulate their use, serve as information centres to their members, and perform the essential service of acting on behalf of their trade on all matters between the trade and Government or the local authorities.

The team recommends:

- (1) that all existent local, state and national trade associations be strengthened and developed;
- (2) that Government, both Centre and State, take the initiative in organizing and promoting meetings to discuss these problems;
- (3) that formation of new general associations of entrepreneurs and vocational trades be encouraged;
- (4) that a survey be made of present trade associations for the whole business sector.

## **V. Co-operatives**

India has a long history of original co-operative effort in the fields of agriculture, industry and finance, and is basically inclined toward co-operative effort. Although the team found resentment against co-operatives as apparent parasites of the Government, to imagine an industrial India without co-operation as an important factor is to ignore the basic facts of the present time and era. Where co-operatives can serve best is the major problem. The many good and successful co-operatives already operating in India can help show what can be done.

There are certain basic principles about co-operation and its functions that can be profitably studied and followed. One of these principles is that co-operatives can serve many purposes, and perform many services which individuals cannot perform alone. As a rule, however, no attempt should be made to have co-operators associate in an act of production as members. They may help in procurement of raw materials, and the marketing of finished products, for instance, by small industry and craftsmen remote from sources of supply and markets. They should be used for credit, although with a minimum of assistance from Government. Mobile co-operative banking units, for example, may be a partial answer to helping small village industries obtain credit for modernization. Co-operatives should be of a limited liability type.

A major conclusion reached is that co-operatives should stand on their own feet. For the Government to subsidize and spoon-feed them is usually the kiss of death. The policy and approach to co-operatives needs basic change. The Government should withdraw from a paternalistic and functional attitude toward co-operatives and from direct organization of them. While Government can and should encourage them, the team strongly emphasizes that co-operatives are after all a people's movement, and must evolve out of the felt needs of the people themselves.

Further, the team feels that the first essential is education of the public and of co-operators on the contribution that co-operatives can make toward solving economic problems. This educational effort should be directed toward training men and women in co-operation so that they of their own accord, can then organize and man successful co-operatives. In this field Government can be of important assistance.

With these basic principles in mind, the study team makes the following recommendations:

- (1) that Government withdraw gradually from direct organization of co-operatives, shifting its efforts toward education for co-operatives which will lead to formation of co-operatives by the people themselves;
- (2) that a public relations programme for co-operatives be initiated to inform the thinking public, spur co-operation and overcome present disillusion and resentments;
- (3) that seminars and short term schools for co-operators be begun in every State in the land, and within a year, a co-operative programme for education on co-operatives be established in each State;

- (4) that present training programmes for co-operators, such as those now being undertaken by the Reserve Bank, should be expanded, to include an even larger number of executives of co-operatives and persons in the Government concerned with co-operation;
- (5) that a Research and Service Department for co-operatives be organized within the appropriate Ministry or Government agency to conduct studies and promote knowledge of co-operative practices and principles.

## **VI. The Industrial Process—Its Implementation**

In essence the great fundamentals of the industrial process may be stated in one phrase: You cannot divide what you do not first produce.

This principle is well understood in the field of food production. If the cultivator does not produce enough food, he, his family and the nation will be poorly fed.

So it is with industry and industrial products. More production means more goods, more wealth to divide. More wealth means higher wages and lower cost per product. It means more and more employment as more goods are sold. This industrial process is evolutionary. It does not take place overnight. As, through the use of efficient production tools and methods, more needed goods are produced at lower prices, workers released from present tasks take up other tasks, in the same or other fields in which effective demands are being created by the very process of rationalization itself. This evolutionary process can start from the simplest beginnings.

The team pointed out as an inspiring example, a spinning mill owned by a handloom weavers co-operative, visited in South India. There the use of better equipment, and the building of a fine modern plant (even including air conditioning) have permitted the society to give a higher return to its owner members. If it is given complete freedom to operate in the most modern manner, under a high level board, it can and will become almost a shrine in world textile progress and point the way in showing how rationalization can bring benefits in higher wages and growing employment.

It is with this basic principle of evolutionary industrial growth in mind, that the team makes the following recommendations. They constitute illustrative examples of action that could be taken, as demonstration projects, to accelerate India's evolutionary growth and advance its social and economic standards:

- (1) *A Small Industries Corporation.*—to be formed by the Centre Government, and with regional and state branches, for the servicing of small industry in the field of Government indents in all its purchases from industry. The primary purpose of the Corporation is to provide the necessary incentive and help small industry to improve its techniques of production and management by working on assured orders; and to assure small industry of its due place and share in India's expanding economy. Its whole effect would be to move small industry forward.



Its basic functions would be procurement, with power to preempt at least 25 per cent. of Government indents at prices substantially equal to those offered by the general business community. It should have contracting and inspecting services, and contain a separate financial body, with power to direct loans to small industry for improving their equipment. It should have an engineering division which would help small industries to produce efficiently; and should subcontract only to those firms who show the managerial ability to operate efficiently, and are willing and eager to pay high wages consistent with higher production.

- (2) *A Plant for Production and Training.*—to help solve the problem of training workers in mass production methods and at the same time provide badly needed goods. The team recommends that the plant manufacture relatively large central diesel electric generating plants for community use in villages and small towns. It will thus help provide villages with sources of power well before the commendable multi-purpose river valley developments can be brought to bear in sufficient amounts. Availability of power is the first essential of industrial growth.

The plants should be large, employing 1,000 to 2,000 workers per shift, of whom one third would be trainees, and two thirds a permanent work corps. It should be designed and built, and in the beginning, managed and directed by men trained in mass production, and equipped with the most modern machinery available. Since the requirements of such a plant are greater than can be met easily by private enterprise, it should be initially started by the Government; a Government-owned joint-stock corporation or corporations are a possible means of finance and operation. It will make possible an eventual complete transfer to private ownership and operation—a transfer believed essential.

- (3) *Small plants for demonstration.*—to manufacture goods in which the skills of village craftsmen predominantly enter, such as agricultural implements. The plants should be decentralized, so that they can stimulate progress in village areas. The Government will need only to initiate the effort; all plants should be sold to private owners as soon as possible.

## VII. Marketing and Distribution

Efficient marketing of products of industry is an essential step that industry must take, if it follows the course to which it is committed—greater industrialization and welfare of its people.

India has markets of staggering possibilities, if they are properly developed. Village self-sufficiency is waning; rural purchasing power is rising; cash rather than barter has more and more become the villagers' medium of purchase; women can and will become an increasing consumer factor. Present marketing methods however are anchored in the past.

Basic development of marketing must take place on these general lines: Firstly, that "made-in-India" products must be good and of uniform quality, and to this end, industry cannot rely wholly on Government, but must police itself. Secondly, products must be geared to meet consumers' felt needs, and be so designed and so marketed that they awaken latent needs. Thirdly, aggressive efforts must be made to reach and stimulate the huge potential market of the villages as yet barely touched. This effort should be accompanied by a genuine attempt to provide service as well as sales. Provision for sound service at reasonable cost to the customer is an essential basis of industrial selling.

With these principles in mind, the team feels that it may be advisable—

- (1) for the Central Government to establish an autonomous Marketing Service Corporation starting immediately on a moderate scale, which can determine consumer demands through surveys, encourage producers to meet these demands, and secure and process orders from wholesalers and retailers, at least on an initial basis. It is a paramount requirement that the Corporation operate as a profit business. Once the industrial process starts working, this Corporation would be integrated as a marketing news service within the proposed multi-purpose Institutes, and its functions become purely service and advisory.
- (2) to set up as an integral part of the Marketing Service Corporation a marketing news service, establishing contracts and reporting liaison with all principal foreign and domestic markets. The multi-purpose Institutes should take a leading part in conducting this service, with the view toward later integrating the service into the Institutes.
- (3) that immediate industry-wide conferences in each major export commodity—such as lac and mica—be held for appraisal of available scientific research on new uses for the commodities in both domestic and foreign markets; and further finance **their own organizations** to work with purchasers and laboratories abroad to keep abreast of foreign market demands and developments.

## INTRODUCTION

The Government of India, through its Ministry of Commerce and Industry in collaboration with the National Planning Commission, and through the courtesy of the Ford Foundation, invited an international planning team to study opportunities directed toward increasing both industrial production and employment of people. The study was to embrace the whole field of operation—production, industrial growth, co-operatives, associations, finance, design and marketing.

In the course of the last three months, our team has visited a cross section of cities, towns and villages in the States of West Bengal, Bihar, Uttar Pradesh, Delhi, Punjab, Bombay, Madras, Andhra and Mysore. We gathered, and were supplied with information from various sources; much of it we could not verify personally. We are confident, however, that any incorrect data among those received, would be rather of quantitative character and not to the degree likely to have affected our qualitative judgment.

Because of the emphasis the Ministry of Commerce and Industry has continually placed on the importance of the early formation of a realistic and dynamic industrialization programme, the Ministry assigned an Officer on Special Duty with the status of Joint Secretary, to make the entire tour with the team. It was to our great advantage to have been accompanied by Mr. Govindan Nair, the Officer on Special Duty. His knowledge of the problems, together with his full and warm co-operation, was of utmost value to us. For Mr. Nair's services we are most grateful to the Ministry.

We also wish to express our gratitude to the State and Local Governments for their excellent co-operation in the conduct of our tour. Top officers in each State accompanied us in their respective states, and were most helpful to us. The exceptionally well organized tours, state by state, showed much evidence of long hard work on the part of the state officers in the planning and execution of our trips.

We were offered full liberty of investigation and no attempt was ever made to influence its direction or to limit our choice of additional sources. We are also happy to say that we were met with friendliness everywhere all the way from villagers to Ministers and with readiness for frank and open discussion of problems and opportunities.

In the following pages, we sum up our general observations, assess the main difficulties as we see them, and state how and why we have come to the conclusions of recommending a number of measures intended to foster the welfare of the small industries. The subsequent chapters of this report deal more specifically with the suggested measures, as well as with some other allied subjects.

### **Village and small Industries—Two Groups**

During our travels we saw a great variety of village and small industries. For the sake of clarity we can divide them into two major groups, with only minor overlappings, having different historical backgrounds:

- (1) traditional village craftsmen (carpenters, blacksmiths, potters, etc.) working mainly for the needs of their neighbours within the village itself, and occasionally, for the nearby village and small town markets.
- (2) small industries aiming at larger markets, selling or trying to sell their products throughout the country and abroad. (This group includes the traditional artistic crafts).

In the first group, a gradual deterioration in the economic position of the village craftsmen has been taking place for some time. Such deterioration is relatively slow and, generally speaking, the earnings of the village craftsmen, even today, depend more on the prosperity of his village as a whole than on any other factor. Nevertheless, in many areas, aluminium ware has begun to encroach upon the domain of the local potter, city made implements upon that of the village blacksmith and so on. It is reasonable to assume that such trends are bound to spread and eventually replace the greater part of the village craftsman's current trade. His defences, based on the traditional terms of bartered services, are quite effective, but can hardly be expected to last beyond the present generation. New additional prospects of work must be provided to avoid hardships and migrations in a foreseeable future. Such studies and efforts, as a matter of fact, are being made in various areas. These may be only beginnings, but rather promising ones.

The second group comprises makers of light consumer's goods of all kinds, including artefacts and of a variety of tools, as well as accessories of mechanical equipment. Most of such industries have formed concentrations, in some particular small area, urban or rural. The birth and growth of each centre can be traced to some particularly favourable period, usually not more than 70 or 80 years ago. The initial stimulus in many cases was caused by the appearance of mechanically made articles imported from abroad, mainly from England. It was found that a cheaper handmade reproduction of the same or similar articles could be made locally—and was.

Large industries sprang up in India in many fields. Foreign goods, due to the industrial progress, were becoming ever better in quality and less expensive. Some of the small producers in India re-equipped themselves, but not many and not enough. The recent period of war economy led again to the expansion of many small industrial centres, as well as the starting of new ones. Under these conditions obsolete methods were no great obstacle. The war and its accompanying temporary prosperity has been over now for several years. Most of the war years' profits have been absorbed by the subsequent deficits and the bulk of the small producers are now faced with a critical financial situation.

### **Management Methods observed**

One of the major impressions of the team during its tour of industrial establishments and artisans' workshops, has been that the methods of management and production fall far short of meeting

modern demands for efficiency. More often than not, age old methods are being used and seemingly have not been changed for generations. Thus the production *per capita* is low, resulting in low earnings and low wages.

Standing still and using age old traditional ideas for methods of work in small enterprises, in our belief, is a very questionable approach at a time when great emphasis for need of rapid development of both social and economic standards is being advocated by the leaders in India through its commendable Five Year Plan. Small industries in India have to compete with modern technical methods of production and distribution used by large industry, without having had an opportunity to take advantage of the same methods and tools so necessary for successful competition. As a result, many of India's traditional small industries are today facing a crisis, their number of employed workers and their output of production gradually declining, and in some cases slowly grinding to a halt.

Even under such adverse conditions, many workers have developed amazing skills, remarkable agility, intuitive precision. As individual virtuosi they are admirable but we cannot help feeling that natural talents are being wasted in a hopeless and losing race against modern technology.

### **The Market Situation**

When it comes to the question of markets for which the products are made, most of the small industries appear to be as much anchored to the past as they are in the methods of manufacturing. Types and areas of consumption are shifting but only a few producers try to follow them. This, in part at least, is due to the prevailing system of distribution. Few channels of communication exist between the small manufacturer and the ultimate consumer—in many cases the manufacturer does not even know in what part of the country his wares are used, or who buys them. A notable exception—the one well known and coveted consumer—is the Government. But we feel far too many manufacturers claim to be dependent exclusively on government orders instead of trying to be self-sufficient in the economy as a whole, both private and public sectors.

A systematic market study would certainly show a number of new potential outlets for the small industries. Our survey has brought to our attention the most obviously neglected market—the three hundred million people in the villages. Villagers could absorb, we are convinced, quantities of products, predominantly well made non-motorised implements for agricultural use and simple equipment for domestic use. Relatively few such products are made available to the cultivators now. There is no doubt in our minds that the purchasing power of the villager is on the increase and will continue to climb as time goes on. Several concurrent factors are bound to increase the quantity and the variety of goods that could be sold in villages. Some of the factors are: irrigation works now in progress; reclamation and better methods of cultivation introduced by the Community Projects and other agencies; building of village roads; better housing; installation of electric power; increased literacy; better health standards and sanitation and rationalization of small industries. These are only a few of the more important factors that inevitably will increase purchasing power through increased supply and demand.

India is fortunate to have one of the largest potential domestic markets in the world. Since approximately 80 per cent. out of the total population of 360 million live in the countryside, the development of rural markets must be kept foremost in mind in all planning for organization or re-organization in any industrial programme.

Also, the 60,000,000 urban residents present a market of staggering possibilities. Four times as large as the total population of Canada, more than the total population of England, this potential area for consumptive and hard goods jolts the imagination. Too little is known of it and also that production and consumption are inextricably intertwined between the rural and urban segments. Supplementing and assisting each other, these two huge areas together can provide enough market stimulus to make India one of the foremost producing and consuming areas in the world.

### **Present Corrective Measures Not Adequate**

Coming back to the cottage and small industries, what steps are now in progress designed to overcome the current difficulties? As to the initiative of the producers themselves, we found evidence of both very limited and sporadic action. Individual obscure craftsmen cannot be expected, of course, to conceive and, even less, to attempt many measures for a lasting improvement. Then also, initiative is somewhat lacking among the producers who do have certain resources at their command. In the sporadic cases, in which better methods have partially been introduced, economic success, with few exceptions, follows almost immediately. The main body of small manufacturers rarely go beyond appeals to Government for assistance in production and for protection from competition. We have listened to the description of numerous schemes which have been or will be submitted to Government. We found that in some cases, producers or groups of producers were willing to contribute to the implementation of new schemes but almost invariably the first step is expected from Government.

As a matter of fact, various public agencies are operating a good number of projects. They range from production-cum-training centres to equipment installed and intended for use of all who need it, to assistance in design, to a Government operated "quality marking scheme". Some of the results of this assistance are beneficial to industry. Commendable as such assistance may be, it falls far short of making any appreciable impact toward the overall advancement of industrial development. The latter is not meant either to criticize or discourage the many hard working, conscientious and devoted people who are doing their very best against almost insurmountable odds. However, we do feel it our duty to make it clear that, no satisfactory overall solution or appreciable progress can be expected from these sources as we saw them in the course of the last three months. It would be a false illusion to think otherwise. The best minds must take a new searching look, tax their imaginations to the fullest and then have courage to implement their convictions.

In all the team's contacts with operators of small village industries, there was consistency in their expressed desire to improve their methods. Without exception they eagerly asked for guidance

and assistance in order to improve their methods and their products.

### **The Approach to the Problem**

In our judgment, the major single reason for most deficiencies in small industries is the lack of a systematic approach to the overall problem; better marketing, better financing, better raw materials, better finish, better equipment, better power facilities, better design, etc. are often thought of as separate remedies, any one of them sufficient for the cure. It is true that in some rare instances this may happen to be so, but if, let us say, a better design is applied to a product made of deficient material or better equipment is used for the making of badly designed goods, little benefits could be expected, even if more abundant financing or marketing facilities were available. To make it worse, lack of direct channels between higher levels of competence and the small industries leaves obscure the conception of what good quality really is.

Before we outline what we consider the correct systematic approach we have to touch upon a point frequently raised during our interviews, namely apprehension that labour saving equipment and methods would increase unemployment. On the contrary such improvements mean more and better products at lower and lower cost in prices and result in greatly expanded demands and markets. It generates higher and higher wages, greatly expanded employment and higher standards of living. It is our belief that such apprehensions are often due to reluctance to analyze the position of a given trade and to face, if necessary, the need for a thorough re-organization and a new approach. Such reluctance and failure to appreciate the proper concept, we think, is responsible for many a difficulty observed. They are real obstacles in the way of any organic effort of improvement.

Before deciding to recommend efficiency in all its aspects as a primary directive for any future effort in the field of small and cottage industries, we examined the question, as best we could, in the light of the contemporary evolution in India. We have come to the conclusion that many industries concerned have a good opportunity to lay a basis now for a promising long term development, but only under the condition that efficient methods of production are adopted as soon and as widely as possible. Of course, not everywhere immediately but as fast and in as many fields as proper evolution, and we mean evolution, will permit. There will always be a vast field for handwork, and not only in typical handicrafts, but also wherever work by hand is required for either a better or aesthetic quality of the product or for reasons of a specific economy in a given production. Handicrafts do have a permanent place in the Indian economy. However, we believe it unsound to use hand power just for the sake of using hand power in lieu of machines when producing products for which there is either an actual or potential demand; demands which machine power will meet at greatly reduced cost.

### **Fears unfounded**

Widely spread fears of greatly increased unemployment through mechanization are not well founded. There are no reasons to believe in a huge and potentially wealthy country such as India, that normal development will not take place. Better and cheaper production

will allow both larger sales and higher wages which will create new and greatly increased employment everywhere. Any temporary unemployment resulting from the application of the increased production process should be absorbed by setting in motion a challenging public works programme. This is a capital investment in the human welfare of the people of this nation and it should be made.

If, all considered, there should still be a doubt in the matter, the sight of what has been happening in the recent years in Agra and in Howrah—to quote only two examples—would help to eliminate any such doubt. In these centres perpetuation of inefficient methods more than anything else has drastically reduced the employment to a much greater degree, if the figures supplied to us are correct, than any modernization of production could have done—and without opening any prospects for the future.

Our task has consisted basically in finding ways and means to ultimately provide more and better employment for the people, particularly in the rural areas. We believe that the following suggestions, if accepted and implemented, would lead to it. We have considered some fields where great improvement could be expected without any serious dislocation of labour. In the metal working fields, in the consumer goods fields, in the import and export fields, rationalization which at best is an evolutionary process, will result in great reductions in costs and prices. It follows that expansion in the market will be so large as to require greater employment. In other sectors a transference of workers to necessary public works, local and national, seems a most reasonable price that must be paid for rationalization. However, we firmly believe that the challenge of rationalization must be met and become a part of a forward looking industrial programme; a comprehensive and sincere programme designed to give the people of India the kind of tools and earnings they deserve as workers in the fields of the needs they can best serve; the quantity and the quality of goods they deserve as consumers; and last but not least, a fair profit for the producer. Case by case, industry by industry, re-equipment may or may not appear always advisable to some specialists in this field. But if it does, there should be no difficulties of principle for re-equipment. Otherwise a link will be missing and the chain of problems will not find a satisfactory solution. The "link" of good equipment is essential in what we consider a systematic approach.

Day to day improvement by the small man is the basis of evolution which we believe so essential.

### **Systematic Approach for the Industrialist**

Such approach is nothing more than elementary but we spell it out in detail because the lack of it is so common and so great with the small industries. That approach is based on research made according to the following order:

1. *Market research*.—What articles in the field and within the scope of a given industry are most likely to succeed in what promising sector of the market, at what price?
2. *Designing (in a wide sense)*.—How such articles should be designed, made, finished, in order to be acceptable?



3. **Raw materials:** What specific materials are best suited for the manufacture of such articles and what is the best source of procurement?
4. **Equipment and organization of work:** What is the optimum equipment for the foreseeable type and size of this production, what is the most efficient method of work?
5. **Research and technical help needed and how to get it.**
6. **Distribution and promotion:** What is the best way to arouse interest for these goods and the best way to sell them?
7. **Is financing available?**
8. **Where can cooperatives and associations be of help?**

Before the research begins, if it is known that for some special reason one of the existing elements cannot be changed, then the first question will be accordingly modified. For example, if no change of equipment can be contemplated, the market research should aim at finding out "what articles, that could be best made with existing equipment, are most likely to succeed, etc", regardless of whether such articles are within the usual field of the manufacturer or not. So, a maker of faulty scientific instruments might become a producer of good mechanical toys—and that would be an improvement.

#### **Problem of Research and Development**

Large scale industries normally have research and experimental work done within their own organization and done continuously. Small industries and artisans obviously cannot do it. Who is to do it for them?

The answer can be found in the direction of cooperative and/or association service organisations. It will take some time, however, before many of them come of age amongst the small industries. Even then, they will seldom be in a position to own and make use of modern laboratories and to engage highly qualified experts.

The needs for research and for basic technical assistance, as well as for training, are therefore among the main reasons for the establishment of the proposed multi-purpose Institutes of Technology for Small Industries.

A set of coordinated services will thus be made available by the Institutes for the benefit of the small industries—their opportunity for enlightened operation. They will be placed then, as a matter of fact, on a more equal footing with large scale enterprise as to the facilities of information specific research and technical know-how. Even the setting up of the proposed Institutes with their contemplated and needed services will still fall short of meeting the overall needs.

The questions are many and they are interlocked. What are the best ways to demonstrate to small industries the methods and tools with which an up-to-date industry operates; to let them participate in such methods and learn by participation and experience? What could dispell the common misconception, which seems to divide large

and small industries when in fact, they ought to be and are complementary such as sub-contracting and servicing. How to provide immediate opportunities for the many craftsmen to produce according to their skills and mental capacities and not just in proportion to their physical endurance—as so many of them are condemned to produce today by the lack of power facilities in most of the rural areas? A real change will come with the new generation. More resources and better method of vocational training on a broad basis in vocational schools as well as in workshops and factories must be provided as a basic condition for industrial progress. Here immediate building of highly efficient plants proposed in one of the following chapters, could begin to solve these problems and to provide, at the same time, sorely needed products, and hasten the fulfilment of the Five Year Plan and its successors.

Many other urgent needs call for a number of things to be considered for immediate implementation. Several suggestions along these lines appear among the recommendations.

### **The Role of the Private and Public Sectors**

Many of these recommendations will have to be initiated by the Government and probably set up and for some time operated by Government. If a beginning is to be made simultaneously in several areas, it is imperative that it be made soon either by the private or public sectors. This, as we know, would be in agreement with the now accepted national policy whereby urgently needed industrial plants are to be set up and run temporarily by the State, and are to be later sold to the private sector. In cases where new units of production by the public sector are necessary such a transition should be made at the earliest possible moment.

On public versus private management—one factor that gave us pause during our tour was the number of manufacturers who were eager for Government assistance in managerial responsibility, but, profits remaining with them. This attitude, in our opinion, is not conducive to a sound economic base for industrialisation. Economic problems that appear insoluble are probably behind such an attitude. However, as more opportunities become available for profitable industrial development, it is our recommendation, the Government should make it clear that it, (a) is anxious for the private sector to take the initiative, and (b) firmly intends to withdraw from management control at the earliest possible date, where it has been necessary for Government to initiate action.

It is recognized that in the orderly administration of public funds and the welfare of the country as a whole, there will be some Government control necessary where industry is concerned. It is recommended, however, that such controls and their regulation be kept to an absolute minimum so as to encourage private initiative to the fullest.

The growth of active, responsible, independent small industries and a gradual rise of many among the more gifted artisans to the status of self-reliant small industrialists will be an important contribution to the social and economic structure of new India.

## Conclusion

The study of the industrial conditions of India, primarily the village and smaller units, divides itself into broad segments. These parts will become the subject matter of the following chapters in this report:

1. The provision of multi-purpose Institutes of Technology devoted to the service of the smaller units of production, so that they may be provided with the scientific and practical knowledge, which, only because of their size, they cannot effectively supply themselves. The work of our Chairman, Mr. Hagberg.
2. Design and methods of supply for quality products in handicrafts, artcrafts and a specialized sector of small industries. The work of Mr. Alexander.
3. The credit and finance problems of small industries. The work of Mr. Grundstrom.
4. The need for proper organization of trade associations. The work of Mr. Grundstrom.
5. The proper use of the cooperative method and cooperation so that services may be performed for the many which single units cannot perform for themselves. The work of Mr. Miller.
6. The development of the efficiency of the industrial process through man, method and machine so that the inherent ability of the worker may be released first to produce more and better products at lower and lower prices to the benefit of the community, and second at higher and higher real wages to the benefit of himself. The work of Mr. Stevens.
7. The consumer holds the final word as to success in industrialization. The connecting link between production and consumption is the field of marketing and distribution. The work of Mr. Miller.

While the various segments of this report are written by the various members of the team, it is in no sense a report of individuals, for the team as a team is in substantially complete agreement on all segments of the report.

The team has felt a great sense of responsibility to the people of India who have asked their advice and help. This has engendered a great sense of humility among us all and a great desire to be granted the privilege of service. We hope that its work will be studied and evaluated in the light of the same spirit of humility and service to the people of India.

The detailed chapters follow.

## CHAPTER I

### MULTI PURPOSE INSTITUTES OF TECHNOLOGY FOR SMALL INDUSTRIES

I. ONE of the possibilities that the Ministry of Commerce and Industry asked the team to study when it arrived in India, was the establishment of a multi-purpose Institute of Technology for Small Industries. This Institute would be for the broad purpose of assisting in the improvement of rural and urban small business and industries, leading to fuller employment.

The team during its three-month tour of various areas in India, has continually discussed with many people the possibility of the establishment of such an Institute, and also its likely purposes and functions. From these discussions, the importance of starting such an Institute became so evident that we concluded that we would recommend not only the establishment of one Institute, but at least four, located geographically so as to better serve the whole of India. In general, the Institutes would act as service agencies to all forms of small industries.

During the time we have been in India, we have made many observations, formed a few impressions and come to some conclusions. Valuable experience has been gained through travel, observation and consultation. Based on this experience there follows, in general terms, some of the basic principles and functions that should be considered in establishing a programme of multi-purpose Institutes of Technology for Small Industries.

#### II. Regional Institutes

The purpose of the Institutes of Technology is to render assistance in the solution of problems, technical as well as commercial, of existing small industries as well as those of new industries that may be proposed or started. This purpose can be realised according to two main lines:

- (i) Initiate and carry on investigations and surveys of existing methods as well as experimental and applied research, for promoting the further development of small industry.
- (ii) Dissemination of the methods and results thus obtained to the existing or potential industrialists (industrialists, their deputies or skilled workers) or organizations.

Activities according to No. (i) is a necessary pre-requisite and will encourage and stimulate activities according to No. (ii), and *vice versa*. These two activities thus are inter-dependent, and should cover the following:

- (a) Promote primarily in the broad technical field, the use of quality materials, more efficient tools, better machinery

and methods, and good design; looking to the solution to technical problems and increased productivity on a sound and economic basis.

- (b) Promote better marketing through continual marketing analysis of the effective and potential demands expressed in terms of the needs of the people. Determine how these demands can be most efficiently met by small industries.
- (c) Promote the organization of marketing channels and services.
- (d) Promote surveys to determine the availability of raw materials, proximity to markets, transport facilities etc.
- (e) Promote and conduct a market news service to facilitate adjustments in management and production to meet the shifts in demand and supply. This information should discourage over-expansion in some industries, as well as point out the opportunities for expansion in others.
- (f) Aid credit facilities through analysis of credit and finance needs and help to develop methods for meeting these needs, i.e., investment capital, banks, cooperatives, associations, Government loans, and other credit facilities.
- (g) Promote businesslike and efficient management of small industries, e.g., procurement of materials, sales promotion, accounting, advertising etc.
- (h) Promote the formation of voluntary organizations, i.e., cooperatives, trade associations, etc.
- (i) Advise and assist, where appropriate, in quality control schemes.

1. The task of the Institutes to initiate and carry on experimental and research work and surveys, etc., must be performed keeping in view the special problems of small industries. In order to avoid unnecessary duplication, work carried on at other institutions must be taken into consideration.

2. The task of the Institutes of dissemination of results obtained should be performed as follows:

A. Through education, to improve the knowledge of industrialists, their deputies, and skilled workers, by giving educational instruction through courses and lectures in both practical training and theoretical knowledge. These courses should be given:

- (i) at the regional institutes;
- (ii) at the branch units or offices (see below) in different parts of the region;
- (iii) by industrial extension workers from the proposed institutes;
- (iv) through other transmission channels such as trade associations, cooperatives, Community Projects, Directorates of Industries etc.

B. Through information and consultation service, which will be performed by:

- (i) instructors in the laboratories and workshops of the regional institutes;
- (ii) branch offices;
- (iii) industrial extension workers from the proposed institutes who will give on the spot information regarding efficient tools, machinery and methods;
- (iv) mobile demonstration units with consultants for dissemination of information on new techniques and methods for existing industries as well as ideas for the establishment of new industries.

C. Through establishment of a Publications Service and libraries as well as exhibitions of current interest for small industries.

D. Through other media promote the technical, artistic and economic development as well as the improvement of quality products of small industries.

### **III. Location of the Regional Institutes**

As stated in the introduction of this chapter, we are of the opinion that there should be four regional Institutes with some branch units within each region. This is obviously necessary due principally to the large size of the country along with the many complex and diverse industrial problems that differ in various localities even within a given regional area. As to location of these Institutes, we recommend they be geographically distributed in the main regions of India.

It may be said that the location of the proposed institutes in or near an industrial centre has many advantages, *e.g.* availability of outside experts, instructors and teachers from industries and/or institutions, desirable for part-time instruction in the many different trades concerned.

Location of the branch units would be determined after the Regional Institutes are established and demands for their services better known.

### **IV. The Multi-purpose Character of the Institutes**

Small industries in India cover a great number of different trades and many of them have problems of a complex nature. Considering these circumstances, the team is of the opinion that the proposed four Regional Institutes should have a multi-purpose character. In view of the vast area to be served by the proposed Regional Institutes, other facilities, *e.g.* Branch Units (laboratories and plants) and Mobile Demonstration units, etc., should be established.

The multi-purpose character of the proposed Institutes of Technology has many advantages in regard to education, information service, and the solving of problems of a complex nature. On the other hand, care should be taken to see that the activities in the different departments in the Regional institutes do not disturb or interfere too much with each other. This is especially essential in the case of

research work. This must be considered in planning of the localities and the organisation of the Institutes. The different departments should be independently organized and the different departments or activities must be properly separated.

To serve the various needs of the many different trades, the Regional Institutes should cover the following main objects: Business Management, Marketing, Mechanics, Agricultural Equipment, Metallurgy, Power Equipment, Electrical Equipment, Transportation Equipment, Carpentry and Building, Food Chemistry and Processing, Technical Chemistry, Handicrafts, Miscellaneous Consumer Goods, etc.

Under the Regional Institutes are:

1. The Branch units (laboratories, plants, etc.)
2. Mobile Demonstration Units.

Examples of Services:

A few examples of the activities of the proposed institutes may be:

- (i) Suppose a travelling consultant or extension worker from the Institute has found that an industrialist is having difficulty with the quality of certain products. The trouble may be caused by either the use of inappropriate raw materials or obsolete methods and design, etc. The proposed multi-purpose institute would investigate the problems, make, if necessary, in collaboration with the proposed School of Design and research laboratories, tests and experiments and recommend appropriate remedies.
- (ii) The needs of a specific trade or industry, located in a large centre, may be such as to merit the establishment of a branch unit of an Institute in the area. Such a branch would conduct experiments, demonstrations, etc., as a special and continuing service to the manufacturers in that centre.
- (iii) Many small industries have obsolete tools and machinery. It would be the task of the proposed institutes to, (a) help such industries with the mechanical design of more efficient tools, and (b) assist in finding a manufacturer who would produce the tools to meet the need.
- (iv) As one result of its survey work, the Institutes, through its Market News Service, would periodically supply the small industries with current and accurate information on prices, supplies, favourable markets and the like. The service would be aimed at assisting the small industrialist in keeping the production on an economical basis. Besides pointing out market demands, the service would also point out opportunities for the manufacture and marketing of new products.

## **V. Liaison Between Proposed Institutes and Industry**

Each of the Regional Institutes would cover a very large area. To meet the most urgent needs of small industry, the Regional Institutes must have special facilities as follows:

- (i) Education and information services in the Regional Institutes and through industrial extension workers from the proposed institutes.
- (ii) Branch units, e.g. laboratories and demonstration plants in different parts of the region.
- (iii) Mobile demonstration units for imparting improved and more efficient production and development of small industries in regions where they do not exist at present.

Extension work through liaison with different organisations, e.g. Trade Associations, Cooperatives, Community Projects, Directorates of Industries and other communication channels is also very important. Every effort should be made to use these organizations to the fullest.

## **VI. Control, Management and Staff of the Institutes**

The four regional Institutes shall each have a director, necessary staff and small advisory bodies. The advisory bodies should be representative of the various fields in which the Institute works. The executive control and direction of the four institutes should be at the centre vested in an administrator appointed by the Central Government with full power to act and to delegate. Salaries should be sufficiently high to attract and hold capable personnel.

The Institutes should be financed by government and be empowered to charge fees where appropriate. The Government should consider authorizing the Institutes to accept grants.

## **VII. Existing Establishment for Technical Education, Instruction and Research**

India has a number of establishments for technical education and training. According to information furnished to us, there are about 40 technical Institutes classified as being in the higher grade, 35 in the intermediate grade, and about 600 vocational and trade centres, in what is called lower grade.

In the field of research, there are a number of laboratories where work is performed. In this category are the more recently established laboratories under the Council of Scientific and Industrial Research, research centres associated with universities and other higher technical institutions, as well as other research institutes in specific fields.

The team has had the opportunity of visiting several of the different types of institutions mentioned. We were much impressed with the work being done in the institutes operated by the Council of Scientific and Industrial Research, as well as some other high level laboratories and institutions of learning. It is interesting to note, however, that in our visits to literally hundreds of small and medium sized factories, we found that the management seldom employed engineers from higher and intermediate technical institutions as production methods or mechanical design advisers. Nor did they often have them on their own staff. The exceptions



mainly being a few industries where the son of the owner had received such training. Even many large scale factories did not employ engineers of higher or intermediate technical education to the extent that is advisable. This should be a potential field of employment for the technically educated unemployed—if the need for such personnel can be successfully demonstrated to the manufacturer.

The team was also impressed with the small number of vocational and trade centres in a country so large in population as India. Six hundred of the present size seems a very small number to service the needs of India, which is working towards rapid industrialisation. We are also given pause and concern in our visits in many of the vocational and trade centres where we observed old and worn out equipment and obsolete methods being used to train young people in the various trades. We, therefore, recommend that a comprehensive survey be made of the works and needs of these institutions, followed by a correction of the deficiencies and then make immediate efforts to bring them up to the standard of training that will produce workers familiar with modern techniques and methods. In this survey the Institutes should lead and assist. Every efforts should also be made to train young people in industrial plants and workshops, supplemented by necessary theoretical training.

#### **VIII. Relation of proposed multi-purpose institutes to other institutions and laboratories.**

As previously stated, the objective of the educational activities of the proposed Institutes is to improve the knowledge of industrialists, their deputies and skilled workers, by giving short courses (from a few days to a few weeks) in order to improve practical training and theoretical knowledge. The main aim and purpose is to assist small industrialists in being more qualified to run their workshops and thereby produce a better product for consumer consumption. Practical experience and a certain degree of competence should be required for admittance to the Institutes for training. Theoretical and practical training, as in vocational and trade centres would be advisable but should not necessarily be a requirement for admittance to the courses. Broadly speaking, the objective of the training activities of the proposed Institutes is to simply and quickly impart to the small industrialist—for his immediate use—advances made throughout the world in science and technology as applicable to his problems.

The proposed Institutes should be excellent channels for making findings of research laboratories, domestic and foreign as well as their own, immediately available where applicable, to small industry. The small industrialist is generally not in a position to either conduct research or experimental work and he should, therefore, find the services of the proposed Institutes of real value to him. The Institutes in turn would be required to give all the assistance necessary to help small industrialists apply and implement research and experimental findings.

In planning the research programmes of the proposed Institutes, care should be taken so as not to duplicate work being performed by other Institutes or laboratories. Of course, they should exchange information and results of work.

### **IX. Recommendations for immediate Action**

All that has been heretofore described about the services of the Institutes will of course take time to establish and put into full operation. However, it is not necessary to wait until all buildings, equipment and personnel are ready before taking action. Much can and should be done immediately.

An administrator of the Central Staff can be appointed, a nucleus staff to assist him can be named, advisory bodies appointed, location of the Institutes can be determined, cost estimates for the necessary buildings and equipment can be finalised, a budget can be drawn up and approved, further and detailed services to meet the needs of small industries can be initiated, and the like. Also the recruitment of the necessary highly skilled personnel familiar with the operating services of such Institutes should start immediately. After some initial planning, it is reasonable to expect that even some of the services of the proposed Institutes can be immediately launched in a modest way.

Recruitment of the necessary highly skilled staff familiar with the operating services of the Institutes is very important. The nucleus of trained and experienced men available may be limited. In view of that, it may be advisable to start the initial work with only two institutes—one in the East and one in the North—but the other two Institutes should follow as soon as possible.

The Regional Institutes should originally be organized so as to be of service to manufacturers located in that particular area e.g. courses in the eastern Institute should stress the problems of the engineering industries while in the northern one, cycle parts, cutlery and foot wear etc. should be stressed.

Top priority on the immediate action listed, should be the granting of clear and full authority to the Ministry of Commerce and Industry to establish and put into operation the Institutes.

## **CHAPTER II**

### **DESIGN AND METHODS OF SUPPLY FOR QUALITY PRODUCTS IN HANDICRAFTS, ARTCRAFTS, AND A SPECIALIZED SECTOR OF SMALL INDUSTRIES.**

#### **Area of Production Defined**

THIS part of the report is concerned with the means to increase work and future opportunities among the makers of articles for home furnishings of all kinds such as furniture, floor and wall coverings, dinnerware, lighting fixtures, giftwares, and so on, and of articles for personal use and wear, especially fashion wear and fashion accessories, such as handbags, footwear, costume, jewellery and so on. All these sectors have been taken as a group in this study because they are intimately correlated and often complementary in respect to market research, to design, to some phases of production, to distribution in India and even more so in respect to the export trade. The following pages in this chapter refer only to the above group whenever mention is made of handicrafts and small industries.

#### **Larger Sales Possible in "Quality Markets"**

According to our observations, Indian handicrafts and small industries could produce and sell in India and abroad much more than they do at present. Foreign markets would be available for such additional trade, as soon as modern requirements of production and supply would be met. The domestic "quality market" is growing and changing rapidly. The current process of the corresponding re-adjustment in the field of production is considerably slower.

Quality products are important not only in themselves, but also because they usually establish trends; an article, once accepted on higher levels, can easily find its way to the average consumer. They are also important because they allow for the widest possible use of objects, materials, and elements of decoration produced by the traditional handicrafts. This is the result of two originally independent but, to this effect, concurrent cultural movements, peculiar to our century; revival of interest in folk crafts, and a revolutionary change in the visual arts. For example, next to his fellow villagers, the best customers for a basket weaver of North Bihar are today in the discriminating homes of Bombay, New Delhi, Stockholm and New York.

#### **Basic Requirements and Needs**

The modern requirements mentioned before derive from an evolution of taste combined with the fact that more consumers are becoming more demanding. Today, in order to qualify as excellent, an object must present a more organic solution of various inherent problems than was considered necessary in the past. It must be properly constructed, with suitable materials, for a particular use; its form must be aesthetically pleasing yet must not interfere with

its practical function; the decoration, if any, must harmonize with the form and the texture. The finish must be good and durable. All this within a given cost. Much of the commercial success depends on the degree of approximation to such a standard. This is the task of a contemporary designer.

In order to satisfactorily distribute these products in India and to foster considerably larger exports, the most urgent general needs are—

1. Good design and technical quality.
2. Reliable organization of supply.
3. Coordinated promotion in India and abroad.

A number of current initiatives is now pursuing these very aims. We had the opportunity to see some of them. We have often admired men and women as, for example, in Patna, in Bombay, in Delhi, in Calcutta, doing constructive work with a great deal of intelligence, talent, and unselfish energy. Yet, while we fully appreciate their efforts, we are convinced that a much faster and much more substantial progress than the one observed is possible and that it could be actively assisted.

## RECOMMENDATIONS

### The School of Design

#### Functions

To help in the improvement of this field we propose to establish a National School of Design, a centre for creative studies in interior design and fashion, having the following specific functions:

1. Market and trends research in these fields and surveys of current production.
2. Designing and making of improved and new models, prevalently such as would be suitable for commercial production by the small industries and craftsmen.
3. Arrangements for the use of such models in actual production by manufacturers and craftsmen.
4. Training of designers.
5. Organization of, or participation in, exhibition and promotional activities in India and abroad.
6. Publication and distribution of periodicals, books, and information pertaining to the field.

#### Policies and Methods. Some Illustrative Details

1. *Market research and surveys.*—In order to avoid duplication of efforts, the School will undertake direct research and surveys only when some specific information is not available through other organizations.

2. *Designing and making of models.*—This is a basic function of the school. Much preparatory and ancillary activities will go into it. To mention just a few: planning of the programme on the basis of the just mentioned research. Selection of handicraft products and materials most suitable to be incorporated in the work in progress.

Research in the domain of Indian art, both ancient and contemporary, of appropriate sources of inspiration, motives and contributors. Study of materials, ingredients, methods of production, and equipment best suited for the making of a given group of objects, to be done mainly through the services of the planned Institute of Technology and occasionally of other institutions or sources of information and of technical assistance.

**3. Arrangements for the use of models.**—In respect to the business of production and distribution, the School is essentially a service organization. Services of designing should be offered both to producers and to distributors of Indian production here and abroad against fees and/or royalties. Exclusive use of design or model will have to be conceded by the School in most cases, under the condition that such can be applied to production in India only. There will be a large number of cases, however, especially during the initial stages, when the School will give its services without any compensation. This will take place in the sector of handicrafts and, sporadically, elsewhere for demonstration purposes. Also, at any time the School decides that the creation and divulgence of a set of designs or models may be in the public interest.

All initiatives emanating from the School will be in the field of small industries, village industries and handicrafts. There should be an allowance, however, to accept a limited amount of assignments from larger industries, for the following reasons:

- (a) It is impossible to draw a rigid border line between the small and larger industries.
- (b) Introduction of better design in the larger industries is not only in the interests of general welfare but can as well be to the direct advantage of small industries.
- (c) Many of the graduates of the School and, occasionally, some of its staff designers are likely to be absorbed by large industries. If the School is not barred from rendering services to larger industries, this danger, if a danger it is, will be mitigated.
- (d) Imitation of designs cannot be avoided in any event.
- (e) Sense of measure and vigilance on the side of the management should be sufficient to assure adherence to the basic policies.

**4. Training of designers.**—Most of the training of the designers will be practical and will consist in apprentice work in assistance to the staff designers of the School. There will be a certain limited amount of theoretical studies including courses in history of fine and decorative arts and architecture, principles of industrial design, basic economics of production and distribution. Whenever there is a need for special technical courses concerning materials and equipment, arrangements could be made with the proposed Institute of Technology or a technical university.

The selection of trainees should be extremely rigid based on a series of inter-views with the staff designers of the School and on a probationary basis. Mere desire to go through the courses of training should not be considered sufficient reason for acceptance: The

examiners would have to be convinced that the candidate is potentially a good designer. A combination of personal qualities and talents should be of decisive importance and not degrees or studies previously completed. It will probably be necessary to hold preliminary examinations in various parts of the country by one or two travelling members of the School's staff. The applicants thus tentatively approved, should be provided facilities for the travel to the seat of the School and for the period of stay there until completion of final examinations. For many trainees, grants in aid may prove to be a necessity for the whole duration of training. We believe, that this expenditure would be a sound investment and that if necessary, if the School is to become a centre for the irradiation of good design.

**5 & 6. Exhibitions, publications etc.**—These should be considered important branches in the activities of the School. Plans could be made for periodical exhibitions of interior decorations, for presentations of fashion, for travelling exhibitions, to visit large and small centres in various States. Above all, the School should try to build in many ways a net of communications between the dispersed energies often isolated, sometimes discouraged: between the men and women of talent, of fine critical judgment, of some particular knowledge and ability or simply inspired by a natural interest for a local craft. Their common contribution will be needed by the country in order to find its new and full expression in the minor tangible things of daily life.

To the eyes of an outsider India appears as a fertile ground for the development of a contemporary style of her own. There is striking relationship between modern architecture and some of the elements of an Indian village. Decorative folk art, given freedom, never fails to carry a personal communication. They are sturdy and vital. The aura of repose, so genuine in an Indian home, is the one much sought for everywhere in the world. When such elements are embodied in the new Indian style, it will be of universal value.

### **Some aspects of the Organisation**

We recommend for the School an independent advisory Board chosen on the basis of merit alone.

An international authority in the field of design capable in administration should be placed in charge of the School and given full powers. He will have proper assistants, one of whom should be an authority in the field of fabrics and fashion. We wish to stress the need to secure the services of men and women of the highest competence for the direction of the school and its main departments. So great is the wealth of the basic material, in crafts and people, so urgent is the call for guidance, for a constructive organization of work, so intricate is the beginning of the task that only the best minds and talents that can be found available in the world would be able to perform it.

The operation of the School should be distributed between main departments, according to the functions listed before. Each department may have sub-divisions. We recommend the method of frequent conferences and consultations among the heads and the staff designers of the various departments and sub-divisions. The best opportunities for a wider use, for new uses of traditional handicrafts, among other reasons, depend on it.

We recommend that a special effort be made in the field of Village Crafts, for the villagers' use. Because of the School, the benefits of all round information and up-to-date experience in the field of design will be available to the villagers.

The School should have small workshops for the preparation of models.

The School would be a non-profit organisation. Its income from fees and other sources would be used for expansion of activities.

### **Units in the Field**

A considerable part of designing, re-designing, and preparation of new samples and lines would not be done at the School, but on the place of actual production, in direct contact with the respective craftsmen and producers. A designer or a group of designers should be delegated for every such assignment and would stay and work in the place of production for the necessary length of time. For assignments involving complex technical problems, teams could be formed of the School's designers and experts supplied by the Institutes of Technology.

There are centres and sectors of production among those observed by the Team where such an intervention would so obviously be useful that we do not hesitate to recommend it for immediate implementation, even before the main structure of the School is at hand. Respective designers or groups of designers could begin their work as independent units, to be absorbed by the School as soon as it is organized.

It is essential, of course, that the quality of performance of the National School of Design be substantially higher than that observed in the centres of design now in operation. It is especially important that materials, skills, and ideas available in the various parts of India be constructively incorporated in the models and designs produced by the School. It is also stressed in order to assure results intended, that the School of Design be a new, independent institution along the lines described in the \*Five Year Plan. It should be set up as a Central School of Design with detached units in various centres of production.

### **CUSTOMER'S SERVICE**

In the sector of the trade defined in the introduction to this chapter there is an obvious lack of satisfactory channels of distribution and of a sufficient number of reliable commissionaires. This deficiency is very damaging especially to exports. It has been felt for a long time. Progress is negligible because (among other reasons) of great distances and want of special competence in this field. An impulse and a help are necessary. Our suggestion is to promote the setting up by associative bodies, institutions, group of existing procurement agencies and/or private business of an autonomous Customers' Service Corporation. We recommend that the Government give financial and other assistance to its establishment and operation.

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\*First Five Year Plan, Peoples edition, January 1953 page 149 paragraph 15 "The Central Government should also consider the establishment of a separate institute for research in handicrafts and the study and preparation of designs. Such an institute could work in co-operation with arts and crafts schools, institutions like Santiniketan and the department of industries in the States."

The main functions of such an organisation would be:

1. Continual surveying of the current production, analysis of productive capacity at hand for separate items, gathering of samples and information and making them available to the Indian and foreign trade, distribution of information to producers on the market's requirements and trends.

Coordination of this continuous flow of information so as to make possible, in case of need, the shifting of orders from one centre of production to another.

2. Making available procurement services to the Indian and foreign trade, service which would include negotiations with the producers on behalf of the buyer on prices, terms of delivery and payment, specifications, etc.: the placing of buyers' orders; inspection of finished goods and, if necessary, of various stages of production; study of proper packing and shipping methods and supervision of packing and shipping; providing for insurance and formalities.

For services rendered, the Customers' Service Corporation would receive normal commission fees from the respective Indian or foreign business concerns. As a matter of fact, it would be acting as buying agents for a number of such concerns.

### **Credit facilities**

It often happens that craftsmen and owners of small industries, no matter how skilled and able cannot accept and execute orders due to lack of working capital. Such financial troubles deserve attention by the Customers Service Corporation. In Chapter III we have suggested the provision of specific funds and the setting up of suitable organisation for providing government loans to small industries and to craftsmen. We suggest arrangements be made between the Customers Service Corporation and the authorities operating these funds so as to facilitate granting of short term credits for working capital to craftsmen when such help is necessary for execution of orders at hand. It is often essential for obtaining orders that the craftsmen within a short limit of time can be assured of getting such credits. Therefore, the local authorities operating these funds should be empowered to grant limited short term credits without many formalities and without delay. Of course, this system is to be carefully tried and by and by enlarged if the experience from this policy proves favourable.

Letters of credit placed by buyers should be accepted as sufficient security on recommendation of the Customers Service Organization.

### **Purposes and methods**

We suggest this kind of organization because one of the major obstacles in the development of markets for Indian small industries, artcrafts, and handicrafts is the deficiency of reliable marketing channels and proper controls. We propose an organization that would act on behalf of the buyers rather than represent small producers (as perhaps might seem more suitable at first glance) because this is the only way to inspire initial confidence in the buyers—and the buyers represent the purchasing power of the markets.



This, in fact, is the only way of assuring accurate deliveries, in standards and in time, and appropriate packing and shipping.

This is the best way to introduce the habit for timely and responsible execution of commercial orders among the small producers.

Many of the small producers suffer from the lack of information on the requirements of the markets. Daily contact with the exacting Customers' Service Corporation personnel, representing the buyers, should result in direct contacts between the producers and the market. At present, the contact is mostly between the producers and the middleman. Too few among the middlemen are informed and enlightened enough to discuss anything except price.

Too many producers think that their sales are poor only because their product is not sufficiently known. Even when true, this is only one side of the problem. Besides, the fact that some minor changes at least are virtually always needed to fit the actual demand, proper channels of supply for the follow-up are essential. Shows, exhibitions, promotion are necessary and useful, of course. But it would be very dangerous to think that all that has to be done is for somebody, the State, for example, to start mass purchasing of the craftsmen's output, as is, and to offer it for sale. It would not only be financially dangerous for the buyers but would be, in a long term, even more dangerous for the craftsmen, left to live in a false illusion.

### **Structure**

Customers' Service Corporation should have a central office in a port city, regional offices and branches in various States and centres of production. In order to render satisfactory services, the total of these local branches for all of India should be upto twenty and probably more. Each local branch should have at least one competent assistant buyer and a small clerical staff. It should also have a jeep. The attainment of this structure should come out of sound evolutionary process.

### **Selection and training of personnel**

To assure quality of performance, the managerial staff and heads of all the local branch offices must be carefully selected and trained. Here again the choice should be made on the basis of personal qualities and attitudes. The interviewing and the selection itself should be done by businessmen having a specific experience in procurement and exports. The training could include some courses in arrangement with various departments of existing schools and universities. Mainly it should be done through a special set of courses to be delivered by Indian and foreign businessmen, through visits and seminars in the places of production and, above all, through a period of practical apprenticeship in the regional offices to be established as soon as possible under qualified management drawn from business, even from abroad, if necessary, and adequately remunerated.

### **Future prospects**

Customers' Service Corporation should aim to become economically self-sustaining. Under reasonably favourable circumstances it could be expected that the budget of the third or fourth year of operations would balance itself. Such a goal should be set as a recommendation to the management with a premium for attainment.

Potentially, there is place in India for several such organizations. The one proposed should be considered as a first step. As the prospects of development grow, other such organizations of varying sizes should be set up on the same basis, to cover the field more thoroughly and to encourage competition among the buyers.

### **EXPORT DEVELOPMENT OFFICES ABROAD**

On the same basis as the Customers' Service Corporation but independently from it, we suggest the promotion, the establishment and operation of two Export Development Offices abroad, one in North America and one in Europe. These offices abroad should be established and controlled from India by a suitable association of producers and the trade in this field. Government assistance may be necessary at first. Their functions would be:

- (a) To survey the markets and specific trends in interior decoration and fashion. To convey such information to the School of Design, to the Customers' Service Corporation, to other organisations, and to Indian producers and trade.
- (b) To supply information on Indian production to local business.
- (c) To supply material on Indian production to the Press and other channels of trade and general information.
- (d) To test market reactions on models prepared or selected by the School of Design.
- (e) To make contacts with importers or prospective importers of Indian goods, stimulate their interest in Indian production and make arrangements for the services of the Customers' Service as buying agents.
- (f) To make arrangements for presentations and exhibitions of Indian goods and for other promotional activities.

The offices need a very limited personnel and a very competent and energetic management. They may charge fees for their services but must not engage directly in the trade nor undertake responsibilities in any business operation.

### **Co-ordination**

We suggest that the heads of the three organizations mentioned in this Chapter form a co-ordinating committee. They should be independent bodies but work in co-operation with existing organisations such as the Handloom Board Handicrafts Board, etc.

### **Some notes on promotion**

There is a number of promotional activities in the field now, many of them successful or promising. We will not undertake to survey and evaluate them in this study because it is our general view that the intensity of promotion should always be related to the degree of preparedness in the quality and quantity of production and facilities of supply, so that the success of promotion could lead to tangible results. In this sense, we do not think that the time is ripe for immediate large scale initiatives.

## Trade exhibitions in India

Should a rapid progress take place and a noteworthy number of properly designed and executed sample collections become available, we would suggest the organization of a large scale and well published trade exhibition or presentation to wholesale buyers, especially to foreign buyers, in one of India's major cities. A comprehensive selection of articles in home furnishings, giftware, textiles, fashion accessories, etc. should be made for the presentation. Complete information as to the prices, productive capacity, and time of delivery should be available to visitors at the exhibition, as well as services for placing of orders and eventual follow-up.

A large number of prominent American and European importing business concerns should be invited to send their representatives and buyers, perhaps as guests of the exhibition or of the government.

We indicate this method because it is likely to arouse an intense interest in Indian production and can best lead to the establishment of lasting connections between foreign buyers and Indian producers. Encouragement should be given at all times to foreign importers who are sufficiently interested in Indian exports, to spend some time in India in direct contact with producers and craftsmen and to work out some "exclusive lines" for their trade. The advantages of such a direct collaboration are usually great and longlasting, not the least of them is the one deriving from a principle common in the American business: that the supplier of goods must earn well if the buyer wishes a regular supply.

Speaking in general terms of assistance in exports and the promotion of exports in the sectors surveyed, we can recommend:

- (a) To allow liberal sending of samples, always provided with full information as to the price, availability, and forwarding facilities.
- (b) To insist on exacting selections of material for exhibitions and presentations of any kind, selection made with specific reference to the given purpose and to the given public.
- (c) To avoid shipment of goods on consignment or as test lots or in any way other than acceptance and payment before shipping.
- (d) To assist foreign buyers here with travel facilities, interpreters, and information.
- (e) To encourage and assist the establishment in India of permanent buying offices of foreign concerns.
- (f) To avoid giving any exclusive rights to a private foreign concern and to avoid that the name of the government be used in promotion by a private concern.

## Conclusion

Most craftsmen and small producers cannot engage in long-term planning nor sustain a determined, lengthy effort. This is the major cause of their difficulties. Whatever the measure the government might decide to adopt in the way of assistance, we recommend that such measures be designed to provide the advantages of the badly needed long-term planning and the means to implement it, rather than to bring immediate but passing relief.

## CHAPTER III

### CREDIT AND FINANCE

THE problems of small industries together form a vast complex where the different parts, regarding material, production, quality control, finance, marketing etc. cannot be solved separately. The credit and finance problems have to be tackled as a part of the whole programme, if they are to be solved. For, without proper finance there will be no efficient planning, nor purchase of material, nor production nor marketing, nor any fair profit, the latter in its turn forming the foundation of the finance itself.

#### Complaints from Small Industry

When we were visiting small industries and artisans in different parts of India, complaints about lack of finance were often the ones first mentioned when discussing the problems. Such complaints, however, are often not quite adequate but usually cover a lot of other troubles and problems. Complaints of lack of reasonable credit often are only an admittance that the business itself has not so far been profitable. Of course, where no profits appear, or are likely to appear, few people nor institutions, are willing to invest and risk their money.

#### Some Basic Fundamentals about Capital and Credit

Complaints about lack of credit facilities seem often to be caused by the fact that there is not enough knowledge about the distinction between capital and credits. Usually, business enterprises should require different types of funds, viz. (1) venture or risk capital, (2) long-term loans, (3) short-term loans or working credits. Venture or risk capital is a basic condition before starting an enterprise and should be invested by the enterpriser himself or, in medium-sized and larger enterprises, by the shareholders. Long-term loans are often needed in addition to the risk capital for financing the fixed assets. Short-term loans are those needed to keep the enterprise operating and are used to meet current expenses including payrolls, re-stocking and re-equipment of machines and inventory.

The proportion between these different types of funds, of course, vary from one branch to another. But to a great extent, it is accepted that the fixed assets should be, to a greater part, financed by the operator's own capital and reserves. And the borrowed money should not exceed 50 per cent of the total capital requirement of the enterprise. Thus, a reasonable amount of the proprietor's own capital should always be a primary postulate before requesting credit, a fact which is often forgotten in the discussions.

#### Capital Supply and Finance Support Starting Small Business

How will these statements fit when adopted to small business? As a rule, small business even in industrialized countries will start with only small capital resources. A craftsman, worker or foreman

usually starts a business where his own skill and energy form the major part of the assets, the rest consisting of some saved money. If he understands how to run a business of his own, he, by and by, will be able to get a little profit and procure implements. He will be looked upon as reliable and may get some funds from friends and relatives. In addition, trade credit might be extended by suppliers, distributors, etc. on materials and goods, this being too a question of reliance.

A modest risk capital completed with such credits once being created, it is very important that other credit facilities are available for the further development, even if the business concerned happens to be a small one. The credit facilities should not only include working capital but also medium or long-term credit, when needed for building of a small factory of his own and/or buying new and better machines. Banks and other credit institutions will in some countries fulfil an important task in confiding the small business and granting them not only short-time but also, in actual fact if not formally, medium and long-time credit.

A development of small business, as mentioned above, will be found in highly industrialized countries, where even small business have taken advantage of modern machines and methods of production and thereby, when they have come into full operation, are often considered to be good clients to the banks. As an example, the commercial banks in Sweden more and more are following these lines in their general policy. One of the biggest commercial banks in Sweden, AB Svenska Handelsbanken, had in 1946 only 18 per cent of its total loans to industry granted to small industry and artisans' enterprises with less than 50 workers. By 1953, loans of this bank to small industry had arisen to 28 per cent. The total amount of outstanding loans from commercial banks in the whole of Sweden to industry and service trades was, in 1953, estimated to be about 220 crores of rupees (Swedish currency expressed in rupees), of which sum about 75 crores (34 per cent.) were granted to small enterprises with less than 50 workers.

The figures above are only mentioned to show that, when business conditions and industrialisation are different, the credit policy will show great differences as well. The Swedish example is not meant as a model to be followed in India. Indian problem should be solved in the framework of Indian conditions. However, when the standard of living of the Indian people gradually rises and industrial progress proceeds as called for in the Five Year Plan, the savings of the people will rise too. The credit institutions—government, private and cooperative—will get more resources and be able to serve industry and trade with more money. It would be necessary that the sector of small industry thereby should get a proper part of loans, if they shall have a chance to overcome the present condition of severe handicap.

### **Finance Conditions for Small Industry in India**

In most of the workshops visited, real finance did not seem to exist at all. There was a severe lack of capital as well as of credits. The small factories in traditional Indian branches such as the brass industry in Moradabad, the lock industry in Aligarh or the shoe industry in Agra to a great extent seemed to rely on

dealers when buying raw material as well as when marketing their products—little money available for more independent business methods of their own. Pressed by the necessity to (1) sell every day's or week's production at once, (2) buy raw material in small quantities at retail price, or (3) work to order of a dealer, i.e. with no material of their own, their day-to-day earnings are very depressed and will not allow them to procure needed implements or machines and thus produce more and better. In many centres production is divided not only between a great number of producers in the same line but also in several operations, each with its own specialized men. This makes it difficult to follow the economical procedures throughout. The general keeping to tradition in production and marketing and the split into too many units, each of which are lacking power, good tools and machines, has formed an uneconomical and as a fact, a very dangerous structure of business. This will be very hard to change for the better conditions which would bring credit and finance on a sound basis.

The major reason why capital within small industry is scarce or does not exist at all is largely due to the low productivity and over-population in many branches. The methods being primitive, it is easy for a worker to start a business of his own. He does not need many tools or much equipment as his competitors themselves do not have any such advantages. They are all bound in the same depressed conditions and seem unable themselves to find a way to a better standard, in spite of their indisputable skill as workmen.

The commercial banks, it seems, are not able to grant credit to small industries. Admitting that the present depressed conditions are not conducive to the granting of credit, it seems that the banks themselves have not made proper effort in their field to correct these conditions. Following the traditional banking policy, they generally do not consider it possible to grant any credits to factories who cannot offer exceptional first class security. Loans with security in land and buildings, which form a part of financial institutions' activity in many other countries, seem not to be made to any large extent by Indian banks. Loans against security, partly or fully, in machinery seem to be negligible for small industries.

As a summary, it may be stated, that the commercial banks are at present reluctant to do business with small industries even at places and in cities where most of the population is dependent on small industry for their living. The major reasons appear to be: (1) the present weak structure of the typical small industry with production split up into too many units, each lacking capital of its own and proper equipment; (2) the present policy, regulations and practices of the banks; and (3) the relation between the limited resources of the banks and the actual demand for money in the market.

## SUGGESTIONS

### **Certain concentration instead of uneconomical split up**

The present economic difficulties of small business in India are such that a very strong effort is needed if beneficial results are to be achieved.

As stated above, the production within small industries is often split up in too many units. If small business is to survive a certain concentration should be made. Many of the craftsmen of today will not have the managerial talents to run workshops of their own, of a larger size and with more mechanical production. Introducing of new methods in itself will make a limited concentration necessary in order to utilize new methods. It must be stressed that concentration and/or modernisation will not at all mean that small business should lose its importance as an economical factor; on the contrary, a gradual change of the present backward structure is necessary and desirable.

### **Selected Credit for certain purposes**

In the field of finance this does not mean that if and when better credit facilities are achieved, all small enterprises should expect to get loans. Credit should chiefly be given in order to gain certain results, such as securing modern equipment and better utilisation of manpower. Enterprisers who desire to improve their production in the way must be or become capable for the task. The problems to be faced are of such importance that a very close co-operation will be necessary between all elements involved—central and state governments, state finance corporation, insurance companies, commercial and cooperative banks, etc., and the industrialists concerned—to get a proper solution.

### **Bank's contribution**

Considering the great importance of small industries in Indian economic life, it follows that the banks should pay greater attention to the maintaining and development of this sector.

The team recommends that commercial banks delegate authority more than at present, to branch offices to decide on questions regarding loans to small business. It is said such a decentralisation is already practised to a certain extent. This practice should be extended. Local boards of directors or local advisory boards in other countries have proved to be very useful in order to gain better communications between banks and local industry and trade, and we believe such boards would be useful here. The team recommends the establishment of local boards of directors. If advisory boards are used and disagreement on loan applications develops between the local management and the advisory board, final authority to decide should be referred to a higher level. It is in the interest of both banks and customers that these communications should become closer, and that the banks have a thorough knowledge of persons and enterprises within the sector of small business.

**Credit cooperatives** with the aim and purpose to provide credit for their members, operate largely in other fields such as Agriculture. There are, however, to a limited extent Cooperatives formed to serve small industries. Properly managed, they can make a good contribution to credit facilities and they have a wide field open to them. Especially for short term credits, there is an expanding need for them even for small village industries. The cooperative banks have so far largely served agriculture credit, but they should expand their activity in the industrial field. The cooperative problems have been discussed in details in Chapter V.

### **Money-lenders existence shows need for more intense banking**

There has been much said and written about the functions of money-lenders especially in the villages and towns. The team did not get any concrete idea about the real importance or non-importance of money-lenders. It seems, however, that when the banks—as can be seen in some parts of India—have given more attention to the rural areas, the scope of the money-lenders has considerably diminished and the interest rates charged by them have gone down. The very existence of money-lenders, however, shows that the money market, for some reason or other, does not satisfy agricultural and small business activity in a reasonable way. It is obvious that when the usual banking rates of interest are about 6 per cent and the corresponding rates of money-lenders mentioned at different places can go as high as 20 or 30 per cent., there should be room for a more intense banking system in the rural areas and towns. Such a system should include promotion of savings.

### **Can a mortgage system be developed**

Credit and loans against security in mortgage of land does not seem to be a common form of credit in India. The reasons might be several, one of them being the need in several states for a better hypothecation and mortgage system. Real estate forming so large a part of India's resources it has to be considered very important that the system of loans against mortgage should be developed and adopted more generally as a security by the credit institutions.

### **State Aid to Industries Act**

From its observations the team feels that the State Aid to Industries Act has been practically of no benefit to small industries for whom it was intended. We also feel that conditions and procedures under which loans are granted should be simplified so that loan applications can be processed rapidly.

### **Venture Capital should be encouraged**

It is highly important that private venture capital be more and more available for investment in small industry. This no doubt, will be the case, if and when it is realised that small industries, properly equipped and managed, are profitable.

An essential postulate for business expansion in this field, as in other ones, is that the general atmosphere for conducting business be of a favourable nature. Furthermore, venture and risk capital within industry and trade, should have a fair chance to give reasonable net profits to the investor as compensation for the risks taken by him.

### **State Finance Corporations**

The team emphasises the necessity of the State Finance Corporations paying attention to the small industries. The team feels that State Finance Corporations, like those that have already been set up in some states, should be established in all states. Since there might be a risk that the activities of the corporations would be concentrated to a few bigger or medium sized industries. Such corporations, therefore, should be required to pay due attention to



small industries. A separate portion of their funds should be reserved for exclusive use by small industry. The minimum permissible loan, from these funds, should be established at such a level that there would be no question as to whether the small industry could get a loan.

As stated before, there is an overall lack of risk capital within small industry. As we understand it, the provision of venture capital is not an intended function of State Finance Corporations. If the present deadlock is to be overcome, it seems necessary to provide venture capital to small industry by certain measures. For this purpose a definite allotment should be made from Government funds provided in the 5 Year Plan for small and village industries. It is recommended that such funds be allotted to the State Finance Corporations. Very thorough investigations have to be made prior to the funds being used in an appropriate way, to create opportunities for efficient production. Contacts with able persons and good factories should be made for a careful selection of good investments in the field of small and village industry.

Loans should be granted to persons and enterprises for building workshops and buying machine equipment, the security consisting primarily or entirely of mortgage on the real estate and machinery. The credit should usually be a medium or long term loan. The ability and personal integrity of the borrower should be an essential point when granting loans.

#### **Rapid improvements could be reached**

A competent field organisation for providing Government loans to village and small industries should be immediately set up. It is suggested that such a field organisation be established as a part of the State Directorates of Industries. This organisation would act as agents of the State Finance Corporations for the purpose of making loans. This organisation should survey the possibilities for rapid improvements of village and small industries' working conditions. It should be possible to help many able and skilled craftsmen in villages to get implements and machines which they never had an opportunity to procure so far. For instance, most of the village blacksmiths need welding equipment, drilling machines and other implements. The carpenter needs a motor driven saw, a planing machine and so on. In these cases, the machines themselves should serve as security for the larger part of the amount of the loan. As an alternative the organisation could buy suitable machines in bulk and rent them to the craftsmen. Arrangements should be made for ultimate purchase by the borrower at the time of loan. Small producers often need short term loans to finance the production of orders. On a proper basis this organisation should grant them. Loans to finance production in the field mentioned in Chapter II on handicrafts etc. come in this category as well.

Granting of loans, entailing some risk, by the organisation would likely encourage other recognized credit institutions to enter this field. By repayment of such loans the manufacturer establishes his credit and he thereby should become eligible for larger amounts as he needs additional capital for expansion of buildings or equipment.

**Instalment Credit**

The team has noted that Instalment Credit does not exist in India in the same way as in some other countries. A sound system of instalment credit primarily directed to the purchase of machinery, equipment and useful utensils but not excluding consumers goods would contribute to a rapidly expanding economy. When initiating the rules, much care must be taken so as to prevent people from being unjustly exploited.

**Conclusions**

The credit and finance problem is a major one for small business. At present Government committees are investigating the finance problems of India as a whole. We hope that the small industries problems will be taken up in their recommendations and that our suggestions will be considered in the light of the great importance of small industry in India. We believe that if a combined effort is made with whole hearted contribution from all parts concerned in the field of finance, it would effectively improve the present state and structure of village and small industries.

## CHAPTER IV

### TRADE ASSOCIATIONS

**THERE** is no lack of organisation within the business life of India. In small industries, however, only a few of those are associated. There are of course associations even in this field, but most of them of a local character and their activity is irregular. Only a few associations are offering good services to the members, others mainly existing on paper.

Among the associations for representing business life are the Chambers of Commerce and their federations. The different big industries usually have formed their own all-India associations. The idea of joining associations has so far not been generally accepted by the small and medium sized industries, not to speak of the artisans and craftsmen.

#### **Trade associations needed in modern society**

In more industrialized countries trade associations have expanded rapidly during the last decades. They are now playing an important role in the economic life. They will often considerably influence the economic policy especially by pointing out and protecting the common interest of their members in relation to the Government and local authorities. Once brought into action, the trade associations are mostly considered an indispensable part of a democratic society.

So far associations of small industry in India have, as far as available figures show, only a limited membership. It might be mentioned that in Western Germany about 900,000 private enterprisers within crafts and small industries are members of their own local and trade associations. They have formed centres for information and consultation and are joined in a top federation. A similar organisation in Switzerland emphasises small industries and craftsmen as well as retailers and has 200,000 members. These organisations have to a large extent the responsibility for the high level of skilled craftsmanship and the solid position of small business in both countries.

#### **General functions**

The general function of trade associations should be to perform and execute things of mutual interest to the members; things which each of them would not be able to do by himself. This activity should touch a large number of aspects, e.g., promotion of vocational training, demands for better credit and finance, purchasing of raw materials, market investigations, collective publicity and information, contribution to experiment and research for the benefit of the members, etc.

The association should act on behalf of all members, when negotiating with Government and municipal authorities or in relation to other sectors of business and social life. The associations

can also perform internal service of different kinds for the benefit of their members, e.g. consultation in the technical field, business management, finance calculations, book-keeping, etc. They can arrange conferences for discussion of an information in action business or trade problems. They can organize study and training activity, supply regular information for members and so on.

### **Local Activity**

Activity in the local field is another important task of the trade associations and their federations. Associations can often inform local authorities so that they can take steps in order to improve the general conditions for running industrial or commercial activity. The informed authorities can arrange for specially suitable areas for industry and trade and take initiative to encourage vocational training schools, improved communications, exhibitions and so on. Furthermore, associations should be formed in order to help the economic interests of the members. This latter form of co-operation has been discussed in Chapter V.

### **Suggestions**

We consider it a good thing if the existing local and trade associations in the different states in India could be developed and strengthened. If so, they will be able to give better service of different kinds in order to help their members. When discussing these problems during our tours, there seemed to be a great interest for a further development of associations in many places.

The artisans, craftsmen and small industries as single units, have very little influence. Joined in efficient organizations they, however, would no doubt be able to guard their interests and help to form public opinion. In a rational system of organization, small and village industries, artisans and craftsmen could be gradually brought into action. This would be an active contribution to Indian democracy. For the Central and State Governments it would be a real advantage. When dealing with different problems in this field, there would be responsible and representative associations with which negotiations could take place.

From several meetings with industrialists we gained the impression that it would be desirable if the Central and State Governments would, together with the Chambers of Commerce, take initiative to organize meetings for discussing these problems. It is true that associations usually are and should be created and organized by private enterprisers themselves. In the field of village and small industries in India, however, the present conditions are a bit different. There are very few representative local associations not to speak of any tendency for state or all-India associations. The present conditions are such that it might take a long time before individual activity in this field can be expected. Therefore and in spite of our opinion that business associations should be formed by private initiative, we think it would be advisable if Central and State Governments would take up this question and arrange meetings for discussion on actual problems of small industries as well as to investigate the interest for forming trade associations. The activity of the authorities should, however, be limited to taking the initiative and bringing the problems up for discussion. The further steps of

organizing would be the task of the enterprisers themselves. If and when discussions are to be held, it is essential that co-operation should take place with the existing organizations in other fields to secure their experience for the benefit of the further development.

One task of special importance for the Indian trade associations will be to take part in forming good contacts between the proposed institutes of technology, the School of Design and the industrialists and craftsmen concerned. Training courses, meetings and information at local places as well as at the institutes should be arranged in close collaboration between the associations concerned and the Institutes. The forming of capable associations will, therefore, be a pre-requisite condition for a good contact between the Institutes and the people which they have to serve. Part of the initiative suggested above to be taken by Government in this field could in many cases be performed by the Institutes. Discussions regarding this matter could, for instance, be taken up when training courses are arranged within different branches.

We recommend such items to be taken up as soon as possible. As the industrial and commercial development of India proceeds, the need for good associations will be correspondingly increased. The sooner the nucleus for these associations can be formed, the better.

As a rough scheme for the organization of small industry, it is suggested that the promotion should be made separately in the different States and/or industrial areas. There should be a proper survey made to find out which branches are at first to be concerned. The primary aim should be to form trade associations within the respective areas. At the same time, efforts should be made to form local groups of enterprises, especially at places where there are many in the same trade. Such local associations are already existing at various different places. They should be interested to promote the work of organisation within their respective trade.

It would also be advisable to form general associations of enterprisers irrespective of vocational trade in towns where such associations do not already exist. Finally, a federation of associations should be created as top organisation for the whole area. A later question will be the forming of an all-India federation consisting of all the top organisations and trade associations of the different states.

The discussion above concerns small and medium sized enterprises producing goods or services in the field of production. However, wholesalers and retailers should have representative State and all-India associations too. We, therefore, recommend a survey to be done of trade associations for the whole business sector.

## CHAPTER V

### CO-OPERATIVES

INDIA has a long history of original co-operative effort in the fields of agriculture, industry and finance. Perhaps more words have been written about co-operation in India than about any other economic problem. Co-operatives fill their greatest need when, as legal instruments for joint action, they can be used to help people do those things that they cannot do for themselves. If planned and operated as a credit, purchasing or marketing tool, to assist several men, families or groups,—to do what they individually cannot do effectively,—it is a device of great value, both to the individual and to the state. The co-operative should never be looked upon as an end in itself. The people of India are inclined for co-operative effort. The long history of co-operation of the people in following out the decisions of the panchayats is an example. The success of these panchayats depends largely upon voluntary co-operation on the part of the village people.

Nearly every brand of co-operation known to man has been tried out in some form on the Indian people. They have been promoted by both nationals and aliens. They have been offered as a cure for about every known type of economic and social ill. They have too often been attempted by those who had never spent any time in the actual operation of a successful co-operative.

Sir Malcolm Darling, whose work was centred in the Punjab, was a notable exception and the results of his efforts are still seen in the successful financial structures of agricultural credit. There were other great pioneers who saw the vision of an India, prosperous and frugal, through the aid of self-help co-operatives. However, for every devoted and well-informed leader there have been a dozen or more self-appointed, unequipped crusaders for co-operatives. Their motives have been mostly good; their mistakes have been of the head and not the heart. This lack of knowledge of co-operative management has not been true of India alone. In the United States, for example, the record of the early day agricultural co-operative is one of many failures; and in the field of industrial co-operation the record has been even worse.

#### **An idea is right when its time has arrived**

However, the flame of co-operation eternally flares through the night of despair and enough sparks from it ignite the combustible material to prove that there is nothing wrong with the theory of co-operation, but rather with its application. An example of this is the establishment in the United States of the credit unions, or poor man's bank. The original idea for this came from the Bombay workers' thrift clubs about fifty years ago, when Edger Filene\* saw

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\*Many writers credit the Raiffeisen cooperative movement in Germany, transplanted to India, as giving Filene this inspiration; but according to many students of cooperatives in India, the idea is really much older and came from the Bombay indigenous workers' thrift clubs.

where groups of poor labourers saving their annas and creating small banks from which they borrowed as need arose and emergencies came. He saw in that the working of a plan that would help raise the economic level of the poor, debt-ridden labourer of North America. Today, some 8 million Americans of modest circumstances use this device and have credit unions with hundreds of millions of dollars in deposits. Their record of successful operation is a marvel of the financial world—with practically no failures. While the time was not ripe in India of the early part of this century to make more than modest gains in this field, there have been enough highly successful operations to prove that a properly operated self-help structure can more than prove its worth to its members and the community.

### **Success and failures of co-operatives should be studied**

There is no need in this report to go into the failures of the past—they should be studied; but it is necessary to stress the need to build upon the success and learn from both successes and failures. Because of the complexity and diversity of many of the State laws governing co-operation and co-operatives, no attempt is made here to fit a particular type of co-operative to a given use or area. Many of the recommendations herein are in conformity with existing State laws; while others, if accepted, will necessitate amending existing statutes. There is no recommendation in this report on co-operatives that has not been tried out in conversation with responsible co-operators and been found reasonable under Indian conditions. No part of these recommendations has received unanimous approval of co-operators save the broad principles that co-operatives can be of great service to industrial India and should be large enough to form an economic unit of operation. No attempt is made to fit the recommendations into the pattern of existing Indian law governing agricultural co-operatives; but time and experience will prove that the same general principles will be applicable in both fields. Many co-operatives will find themselves in both fields because the Indian village is inextricably agricultural and industrial at one and the same time. Under the ancient system of the division of labour in the village, the blacksmith and the cultivator have been interdependent upon each other. The leather worker could not exist but for the livestock owner who disposed of his deceased animals. The Persian water wheel and the bullock cart have been manufactured locally and most of the agricultural products have never entered into national or international commerce. They are consumed at or near home by the community. Because of this existing pattern and its historic significance, there has been a great surge of belief in the multi-purpose co-operative society. The failures of these should be examined rather than ignored, as much can be gained therefrom.

### **Co-operatives succeed as service agencies**

Co-operatives succeed where they can be a service agency to fill a need for producing or consuming members. As a rule, no attempt should be made to have co-operators associate in an act of production as members. Much misinformation is at large in this regard. For instance many articles have been published by writers in other countries about the industrial co-operatives in Scandinavia. These misnamed (by non-Scandinavians) industrial co-operatives are primarily successful service co-operative organization owned by

consumers or agricultural producers. They are used for manufacturing or processing in certain fields as a service to their members at cost. Whenever members are employed in these co-operatively owned manufacturing plants, it is really not as co-operators but as employees, together with others who are non-members. The member-employees in the co-operative factories cannot, owing to the minor number they represent in the co-operatives as a whole, influence to any appreciable extent the policy or management of the factories where they are employed. In Chapter VI of this team's report is a description of a new spinning mill recently erected in India by a co-operative of weavers with the same general business structure as the successful Scandinavian co-operatively owned industrial plants.

India is committed to industrial change and activity. Its Five-Year Plan and development projects, such as Damodar Valley, mean, among other things, that India will have industrial development in the villages and smaller cities. The history of electrical service from Ireland to Japan proves that local and small industry follows the transmission line. As mentioned elsewhere, India's millions need industrial products in such vast quantities that it staggers the imagination. As consumptive needs are filled, the prosperity of all India will gain in accelerated proportions. Indian co-operatives in the past have thrived best in the small community among cultivators. To imagine an industrial India without co-operation as an important factor is to ignore the basic economic facts of the present time and era. Where co-operatives can best serve is a major problem.

A directive principle of the Constitution of India (Part IV, Article 43) is: "The State shall endeavour to promote cottage industries on an individual or co-operative basis in rural areas." Also, in the Constitution, in the Seventh Schedule, List 2 (State List), Article 32, it is specifically enumerated that co-operatives are to be chartered by State Governments. Co-operatives being thus mentioned twice in the national Constitution, can well be said to be a part of the basic thinking of the Indian people through their government.

The recommendations in regard to co-operatives in this report are based upon a presumption of the general knowledge of this division of powers. The national Government alone, or in collaboration with the States, operates in the field of 'encouragement'; while the State Governments have, in addition, to operate in the field of licensing and regulation.

While the national directive only mentions co-operatives in relation to cottage industries, it is generally accepted belief on the part of the people interviewed in India that the national Government has been, is and will be committed to a policy of encouraging all types of legitimate co-operatives whose purpose is to aid people to do those things together which they cannot do for themselves.

In this report no attempt is made to segregate which part of the recommendations are of a national and which of the State scope as they will naturally fall into their respective compartments and several of them would be found to be in both the fields.



### **Co-operatives of all types are considered**

While the work of the team is confined to the 'development of village and small industries in India', it is an impossibility to put co-operatives serving industry in a compartment by themselves. Emphasis in the following recommendations is placed upon co-operatives as they serve industry but these recommendations, of necessity, go far afield into the whole structure of co-operative effort.

The following basic principles should be recognized and studied; and adapted wherever possible.

#### *1. Co-operatives should be used for credit.*

Lack of credit was one of the almost unanimous complaints from Indian small industrialists in all communities visited. However, in some of these communities there is enough idle capital to form the nucleus of successful co-operative financing institutions. Small enterprises should be encouraged to form co-operative credit associations with a minimum of direct government participation. The Reserve Bank of India has the means and facilities for active help in such efforts. Concurrently, it is hoped that the regular banking institutions will enlarge and widen their rural facilities for the handling of accounts, and the physical depositing of money. The team found co-operatives, with no available banking facilities, whose officers go many miles by bus to deposit or withdraw small amounts of money. The creation of mobile co-operative banking units with a circuit of villages is suggested as a partial answer. With the new roads and communications this is possible when combined with the commonly accepted value placed upon law and order in the rural areas.

#### *2. Co-operatives should be used as procurement agents for their members.*

The smaller industrial enterpriser is at a distinct disadvantage in the procurement of goods. He often buys at retail and sells at wholesale. Within this one economic plight lie many of his woes. The small individual operator cannot often get the quality of raw material whereby he can manufacture an acceptable product. The Indian craftsman is reliable and extremely dexterous when given proper tools, but he cannot turn out a product to build a good reputation under existing procurement methods. He should join with other fellow craftsmen to form a co-operative to purchase for him on order—not speculatively. This organisation should purchase for cash, and provide members with goods for cash with no deviations. The credit co-operative or commercial bank can provide credit facilities. The technical institute programme outlined in this report should be of immediate and invaluable service to these procurement co-operatives in aiding them to determine the type and quality of material to be purchased.

#### *3. Marketing co-operatives are often a necessity if the small industrialist is to compete beyond his local market.*

For goods sold entirely in communities of production there may not be any great need for such a co-operative, but for those sold away there is often a recognized need, especially when the ordinary channels of trade do not provide adequate services. The industrial marketing co-operative will have a much harder task to perform than

either the finance of procurement one. There are few successful patterns abroad or at home in this field, but the principle is right if the means can be developed. A few general concepts should be followed. The co-operative should never buy from its producer members. It should accept members' goods on consignment and sell them. Advances should be made on delivery with further payments as the goods are sold. Members of a marketing co-operative must accept the need for the co-operative to the extent that it will be their sole selling agent. Deviation will probably spell ruin as the co-operative will ordinarily get the second quality goods, and the best quality only in times of surplus. A fixed estimate of selling costs should be retained high enough to cover anticipated costs including market promotion. At the end of pre-determined periods there should be either a refund of overcharge or an assessment of undercharges.

The profitable marketing of the industrial products of India's village and small-scale manufacturer presents some serious and difficult problems. The single operator is at a distinct disadvantage in competing for markets even a few miles away, as the costs involved are too high in proportion to his output. Co-operatively with others, this problem can be solved, with the end-result that the manufacturer can survive and the consumer should get better quality goods at a lower price.

#### *4. Co-operatives should stand on their own feet.*

Governments should create a legal, economic and political climate wherein co-operatives of self-help nature can operate if their establishment is demanded by the people. For government to subsidize or spoon-feed them is usually a kiss of death. Subsidies are usually a premium on inefficiency and are a tax on the consumer. Subsidized co-operatives are channels for a special few to gain special privileges from the many with the government as an instrumentality. The government can, however, always help co-operators to build up experience and confidence by partial and initial participation in co-operative ventures by capital, loans and advisory and managerial service. Co-operatives thrive where the government acts as a regulator-referee. In India, through its Reserve Bank, there is adequate structure for the financial help needed by co-operatives from outside capital. Grants should not be given; only loans.

Co-operatives should not be taxed upon their legitimate business as agents for members nor should overcharges nor patronage refunds be considered as taxable income. However, when the co-operative wanders a field and does business for non-members it should be taxed on such business in the same way as any other entrepreneur. A real co-operative is a legal agent for its members and when it does business for them it can have no profits for itself—merely overcharges or under payments. When these are determined by a pre-arranged legally-binding contract they become non-taxable refunds of capital; but if the co-operative does not have such pre-determined contracts with its members then it should not be entitled to tax exemption.

India has some peculiar problems of illiteracy. Many people with the best of intentions have felt that because of this the government must govern and run the co-operatives. Nothing is farther from the

truth. Illiteracy has little to do with intelligence. Successful co-operatives composed largely of illiterate members were observed and studied by the team. These had succeeded by their own efforts with the government Registrar acting as guide, friend and adviser rather than as operator.

We found an alarming number of members of co-operatives who believe that the government owns the co-operatives. They refer to the organization as 'theirs' and not 'ours'. This problem must be fundamentally attacked by withdrawal of government from a paternalistic and functional attitude towards them.

#### 5. *Co-operatives should be of the Limited Liability Type*

Few industrialists—large or small—will willingly join a co-operative with more than limited liability. Unlimited or excessive liability tends to keep the provident and the thrifty out and to garner into the co-operative less desirable members. There may have been a time when such arrangements were needed; but that day has passed in the New India. Co-operative insurance and other devices have eliminated the need for un-limited or excessive liability. Co-operatives should function so as to develop the self-respect of their members and not make themselves feel like second class borrowers. Coupled with this should be an adequate screening of the financial risk involved with each member.

#### 6. *Co-operators need Education*

One of the greatest handicaps to successful industrial co-operation in India is the lack of facilities for the training of co-operative leaders and managers in the fundamentals of the business organization. Co-operatives are subject to all the ills of ordinary business with the addition of many inherent in having a voting membership which consists of those who are both patrons and owners. There are few facilities in India for training these necessary leaders and managers. The Reserve Bank of India and some co-operative leaders have recently embarked upon a plan to train some selected men from co-operatives and government employees from co-operative departments. This is good and should be enlarged so that even a larger number of executives of co-operatives and men from co-operative departments of government should be enabled to attend than is now contemplated. Of equal importance should be the inauguration of a programme to train co-operators themselves. If much of the money and effort now spent by government in promoting the formation of co-operatives could be eliminated and transferred to education in the fundamentals of co-operation and co-operative management, much good would result.

*Seminars and short-term Schools for Co-operative should be begun in every State of the Land.*

Co-operative management and organization are so complicated that few leaders can be developed without serious study of its principles. A contributing factor to the failure of co-operatives in India has been the lack of education in the fundamentals of co-operation. While this report concerns itself with the place that co-operatives can have in industrial growth, there are certain facts where the whole field of co-operation must need be considered. In education this is particularly true. Immediate steps through the various governments,

Central and State, should be taken to work with all co-operative groups to launch co-operative educational programmes in all areas of the nation. Thousands from the rank and file of co-operators and potential members of co-operatives need basic education in the principles and practices of co-operation. This should be provided within the areas in which they live. Pioneer work in this regard has been done in several States with astounding results in co-operative morale and service. In Ceylon there is a co-operative educational programme where men devoted to co-operative effort can go for study and encouragement. Denmark, through the inspiration of its People's High Schools, has been among the leaders of the world in this regard. Its system might well be adapted to India in the development of an integral programme of better village and co-operative life.

There are many highly qualified men in India who have gone abroad, to Denmark and Canada in particular, to study co-operative education. Unfortunately, the knowledge gained by these men is often lost to co-operatives as in some cases they have retired a few months after returning, and in others there has been no opportunity to make the knowledge gained available for India. There are also some excellent young men who have gained a thorough education in economics and business administration abroad and who are today frustrated because they cannot find employment in the field of life where they can use their knowledge. From these there can be selected a splendid core to organize the co-operative education so terribly needed. People often think that all education needs big buildings. In scientific research this may be true; but in co-operative education this is largely unnecessary. Informed and devoted men are the basis of success. There are enough to do the job if given opportunity and encouragement.

Money now appropriated for various less effective co-operative uses, such as subsidies, can be re-routed for use in these educational fields. Within a year there should be established in each State a co-operative programme for educational purposes in the village and field. This can be co-ordinated with the Community Projects Administration in making available services for helping these centres in true co-operative educational work. The leaders at Antigonish in Canada have shown that study of co-operative principles and needs must precede the formation of successful co-operatives by at least a year on a community basis. This is a generally accepted fact. Existing co-operatives should be encouraged but new ones can and should wait for education to catch up with enthusiasm if mistakes are to be avoided.

A catalogue should be made of the existing co-operative educational plans in India and a list prepared of the personnel available who have had study in the field of co-operation. From the latter group recruitment should be made of the educators for a truly people's co-operative educational programme. The brains of the older men who have studied and retired or are about to do so should be utilised. A start can be made with the community project centres and plan an educational campaign of a permanent nature to train men and women in the theory and practice of co-operation. This work will become more and more important as time goes on, because education of this nature is never to a crowd but to a parade. This is a field in which the government can assist co-operatives without

pauperizing them. This educational effort should be directed toward training men and women in co-operation so that they, of their own accord, can then organize and man successful co-operative. For a precedent in this regard within the Commonwealth, there is the example of the Province of Saskatchewan in Canada. Existing educational centres can be used for central work. The educational programme should be taken to the people. Various existing channels such as the Public Relations Department of some States can be utilized for dissemination of information and study of methods. Investment in this field by the Government of India will pay great dividends not only in helping to develop co-operatives; but also better integrated and informed men and women because, in the words of Dr. Peter Manniche of Denmark 'co-operation itself is an education.'

#### **7. Research and Service Department for Co-operatives**

Through months of study preparatory to writing this report, the team was impressed with the lack of authentic information about the management, economics, statistics and laws of co-operatives. Much of this has been touched upon in the preceding paragraphs. After taking due recognition of the research and statistical work being done by the Reserve Bank of India it is recommended that consideration be given to forming a district organization in a Ministry of the national government or the Reserve Bank of India whose duties it will be:

- (1) to conduct studies of the economics, legal, financial social and other phases of co-operation, and publish the results thereof;
- (2) to promote the knowledge of co-operative principles and practices and to co-operate, in promoting such knowledge, with educational and marketing agencies, co-operative associations and others;
- (3) to make such special studies, at home and in foreign countries and to acquire and disseminate such information and findings as may be useful in the development and practice of co-operation.

Such an organization, of which there are precedents in other countries, and some creditable efforts in this country, will fit into the co-operative field by transmitting ideas from one association to another. One of the main functions of such an organization would be to make available to those attempting to organize and develop a new co-operative the experience from similar preceding efforts. A co-operative without access to such basic information tends to wither away much the same way as an improperly pollinated plant. Cross-pollination of ideas brings vigour and is one of the ways in which co-operatives can be greatly assisted. This function can well be performed by Government.

An example of the type of work to be performed by this proposed research and service department would be to make available for co-operators in the country the record of existing successful co-operatives within the nation itself. There is a tendency for Indians to talk of the case examples of good co-operatives abroad; but there should be a greater general knowledge of the good ones at home. Tagore's story of the 'touchstone' is applicable. There are enough

good co-operatives in the country to encourage the Indian as to what he can do. Immediately, a loose leaf text should be prepared, presenting a few of the histories of the most successful co-operatives existing in India. It should be enlarged as good examples are found. This will serve two purposes—one, to be the basis of an Indian co-operative case history of good co-operatives, and secondly, to act as a stimulus to co-operators to gain a place in this hall of fame. A minimum expense would be involved in this undertaking. A highly personable young Indian should be assigned from government to keep constantly on the move and watch for successful co-operatives. When found, they should be studied and the reports then assembled and made available to a small board of review, consisting of officers from the various co-operative and panchayat associations. The approved results should then be printed and disseminated throughout the nation for approved study in the field of co-operative education.

### **8. *Government should gradually withdraw from direct Organization of Co-operatives***

The team reiterates its conviction that co-operatives must be organized and developed by those who are to be served. At the risk of being a little slower in formation, it would be better to wait until the people themselves feel the need for these rather than for government promoters to have a time-table of co-operative organization to follow. Government can and should help create a plan by education in which co-operatives can be promoted and thrive but it should gradually withdraw from the direct organization of specific co-operatives. It should be remembered that co-operation is after all a people's movement.

### **9. *A Public Relations Programme is needed for Co-operatives***

Perhaps the biggest hurdle for co-operatives to jump in the immediate future is that of public relations. The public, while believing in co-operatives, is so fed up with them as apparent parasites on the government that there is a terrific resentment in every State visited. If the general recommendation as to co-operation as outlined in this report is followed then there will be the need of a corresponding public relations campaign carried on to inform the thinking public. People now going to others in business and the professions for advice as to whether they should join a co-operative are faced with extreme criticism based upon well known co-operative failures. Too few will join co-operatives unless the local public opinion is friendly. This is the field of public relations and it should be assumed by the co-operators and the government jointly. If co-operation is ever to get off the ground, its fragile craft can much easier take to the air under favourable conditions of public esteem. Local sentiment must be right and it can only be so with strong concentrated public relations. This matter should be made the basis of serious study by co-operative leaders as there is no question but that the trend of antagonism can honestly be altered. Public relations must be based upon truth and existing facts, and not built in a dream world of propaganda.

### **10. *Co-operatives are in the Public Interest***

Co-operatives have received wide attention from the Food and Agriculture Organization of the United Nations. That organization has just concluded its second regional conference on Co-operatives

in Asia, at Kandy, Ceylon, the first having been held at Lucknow, India, in 1949. A policy statement made for the Director-General of that organization at Guelph, Canada, in May, 1949, is so pertinent to this report that we conclude the section on co-operatives with the following quotation from it:

"FAO has no formula as to how co-operatives should be formed or managed, except that they must be in the public interest and adapted to local needs and cultures. They are the direct antitheses of statism and are an effective agency not only for economic services but for promoting education and a higher standard of living. The world must recognize that the dignity of man is increased by helping man to help himself—which is the objective of co-operatives."

## CHAPTER VI

### THE INDUSTRIAL PROCESS—ITS IMPLEMENTATION

#### Beginning of Industry in the Industrial Process

**AMONG** many of the fine people we met on our tour in all levels of the industrial process we believe we found some lack of appreciation in them of the great fundamentals of the industrial process.

Therefore, before going into our recommendations we believe it necessary to state some of these fundamentals.

- (1) Satisfaction of the necessities and amenities of life result from the labour of the worker, to be a cultivator or an artisan.
- (2) You cannot divide what you do not first produce.
- (3) As each worker produces more through the application of inventions and the use of better tools and power, the total production rises resulting in more and more food, goods and services for all the people.
- (4) As production rises, new crafts and trades develop and interchange between them, in all phases of their activity, become necessary.
- (5) As the economy expands, more and more desirable goods are produced; workers are released from their present tasks to take up other and eventually more advanced tasks. Thus the standards and amenities of life rise through ever greater production.

As to individual production itself, this is readily understood in the field of food production. If the cultivator does not produce enough food, it results in famine and starvation for himself, his family and the nation.

To the degree a cultivator produces more food, than his own needs, one of his fellow cultivators may be released from the production of food to take up the tasks of the building of homes, the making of clothes, and the construction of roads.

Thus begins the industrial process.

As it develops, the pattern remains constant, regardless of its rate.

We have expressed the above fundamentals because almost everywhere we went we were confronted by the unjustified fear of unemployment because of rationalisation. With India's needs and desires, such as for better housing, irrigation, roads etc. there should be no unemployment. If India's needs are to be met, the necessary shifts of effort to meet those needs would not in any sense be because of unemployment, but because of overall advance.



To illustrate, in the field of transportation alone, India needs thousands of miles of new and improved roads. India's transportation today is based primarily upon the bullock hauling a cart with an ancient form of wheel bearing over a completely unimproved road. Beyond a distance of about eight miles (one day's bullock cart range) from more modern forms of transportation, such as highways and railways, progress in village life becomes almost impossible.

Both road and cart are subject to immediate improvement. We noted a tendency among some people to demand only the ultimate best because it is the ultimate best, illustrated by concrete in road construction requiring presently unavailable cement. Actually one of the best indigenous solutions under present conditions should be used, namely, better and harder bricks locally produced with local labour as the primary material.

A bullock cart with antifriction wheel bearings alone will greatly increase the transportation capability of the bullocks. Yet people seem to demand only motor lorries. Such a cart already exists, as we observed it on our tour.

The effect of these two simple improvements on the transportation of India is almost beyond imagination.

The wide construction of better bullock carts will usher in a whole new small industry needed for their production in village after village.

In no sense can the financing of roads be considered deficit financing.

Their building creates a capital value far beyond their cost. Their construction and the fields they open up in addition to employment for the interchange of goods and services and their contribution to a greater capacity to produce, are the major antidote to shortage and inflation.

A short trip on the historic Grand Trunk Road will quickly demonstrate the truth of how roads contribute towards real and lasting progress.

In the sections which follow, we shall attempt to show what procedures in some fields should be followed in order that India's economic and social standards may advance. They cover by no means all the fields but do, we believe, illustrate the fundamentals.

In the application of these few methods, small productive and service organisations of every description will multiply and prosper.

### **A Small Industry Corporation**

We recommend the establishment by the Centre with branches in the states or regions of a corporation devoted to the servicing of small industry in the field of government indents in all its purchases from industry.

The Government and its departments, corporations and other subsidiaries and their branches and dependencies, are a source of a very large amount of business of every type and description, business which can to a large extent be served by small industry either directly or through the medium of sub-contracting.

It is most difficult for small industry to participate in this business because of its inherent organisational structure. It lacks the necessary engineering and sales organisations to contact the Government properly. It lacks, more importantly, the ability to afford the expenses of these business functions because of small volume.

An All India Small Industry Corporation would of itself be large and should have a proper organisational structure. However, it should start small, taking indents in only two or three industries and working with a few small plants in each industry. As experience is gained from proven procedures the Corporation should be capable of rapid expansion to the extent necessary and desirable to properly serve small industry.

It should be organised in general with the following functions:

- (1) A procurement division with the power to preempt at least 25 percent. of government indents at prices substantially equal to those offered by the general business community. Where the items especially fit small industries, and the small industries as a whole are technically backward, it may be permitted to take a higher percentage. Some few fields of government indents are of course not subject to production by small industry even through the means of sub-contracting.
- (2) A contracting division who would in turn subcontract to small industry the indents it has taken.
- (3) An engineering division whose function would be to assist small industry in proper processing of the indents. They would help determine the proper machine tools for efficient production of the goods. The proposed multi-purpose Institutes could be of great service in helping in this field.
- (4) An inspection department to ensure that the goods are produced in complete accordance with the specifications.
- (5) A separate financial body within the corporate structure with power to direct the loaning of funds to the small industry for the purpose of producing the goods, including the purchase of modern machines and equipment where necessary. In addition, the Corporation should have the power to direct other financial institutions to loan money on the guarantee of the Corporation. This function of Corporation is not, in any way, intended to modify or limit the discussion of Finance in the other chapters.

The Corporation should sub-contract only to those small industries who show the necessary managerial ability to operate efficiently. To those who are willing to modernize their methods; to those who are willing and eager to pay high wages consistent with efficient production methods.

Because of a successful performance in the first instance, small firms should have no continuing right to Government business through this Corporation. Neither should it be precluded from further business without the Corporation's help. The sole purpose of the small

business corporation is to help small business to establish itself as efficient modern small units standing on their own feet in the community. The Government, of course, benefits through the improvement and widening of its sources of supply.

Unless they are willing to organise themselves with proper technical personnel to take advantage of the corporation's service with the first indent and to continue to progress by retaining the personnel and by taking advantage of the services of the proposed multi-purpose Institutes where necessary in the future, then they should not be considered as eligible for the help of the corporation.

The requirement for business and help from the corporation should be a sincere desire to improve and help the community in every way. This means a high wage policy based on high and efficient production with low prices and reasonable profits.

Such a corporation can and should succeed in India as it did in other countries.

Its loan business can and should operate at a profit.

The whole effect should be to move small industry forward.

### **A Plant for the purpose of Production and Training**

In the small industries we visited we found but few instances of modern equipment or modern practice. We believe such equipment and knowledge, to be essential for successful operation and development.

It is essential to train large numbers of workers and small producers for the proper use of such really modern equipment, so that they would know how to handle it when it becomes available to them. There is no better way to learn this than by working on up-to-date equipment in an up-to-date plant.

Such a plant or plants should be set up. The plants should be few in number. The goods produced should contribute in the fullest possible measure to the development of Indian economy. The requirements of this plant to accomplish its purpose are greater in the beginning than in ordinary private enterprise, because (1) enforced turnover may be needed to educate more broadly, (2) the purpose of sub-contracting, in this case is to utilise small industry and not just to serve the plant itself, (3) equipment, in some minor degree but in no fundamental degree, may be chosen with a somewhat broader view and (4) the most modern of equipment should always be used when in some cases earlier models might do. This is again education.

A government owned joint stock corporation or corporations are a possible means of finance and operation. This permits autonomous management and operation. It also makes easy the eventual complete transfer to private ownership and operation. A transfer, we believe, essential in the long view.

They could accept on a proper tenure basis qualified workers, supervisors and small industrialists for training in their workshops as actual workers. The permanent worker staff should be of about two-thirds of the total.

S. M. of C. & I.

We believe the best field to enter would be in a plant to manufacture relatively large central diesel electric generating plants for community use in village and small towns. Such plants would in themselves be capital assets of great value. They would be self-supporting. They would be self-liquidating. They should be rented or sold to the town or village based upon proper interest and amortisation rates. The operating expenses should be borne by the community in which they are installed. In other words, small local or groups of local public utilities charged with responsibility to develop and sell power application. The installation of the diesel plants would enhance the potential village market for all kinds and descriptions of goods and services, i.e., lighting, small pumps, household appliances, etc. The power they develop would release in quantity the great potential of India's fine village craftsmen and artisans. We suggest the plant to provide power equipment rather than machinery of one or more types because—

- (1) Availability of power is the first essential to industrial growth.
- (2) Power can be applied to specific requirements through machines of different forms. There is no one best method as a practical concept.
- (3) Availability of power releases the abilities to make ever better adapted to their tasks. The inventive genius of many men.

Through giving them power for modern equipment such as blowers, lathes, etc., they would enhance the capital of India, not drain upon her resources.

We are of course familiar with the marvellous Indian river valley development of hydro and thermal plants totalling 1,000,000 k.w. But we are just as keenly aware of the millions of small wells which will still remain unserved by this power and whose potential demand alone totals far more than the KW to be produced.

We do not wish at this time to suggest either the exact size of the investment nor the exact models to be produced, but the size and objectives of such a diesel manufacturing plant are approximately determinable.

The first and governing factor should be the number of workers to be employed and this should be in the range of 1,000 to 2,000 per shift. Such a plant should have every department of manufacture and the ability to assemble at least twice its own production of components.

It would consist of departments such as foundries, both ferrous and non-ferrous, machine shops, automatic and semi-automatic, forge shops, heat treating and electrical shops. It would have maintenance shops employing every kind of tradesman and craftsman. Opportunities for the training of many men in many trades and crafts would exist in such a plant. It should sub-contract with small industries for a portion of the components of the machine. It should sub-contract only to those who modernize their methods and pay high wages. They should sub-contract only to those plants whose

management trained in the diesel plant and who associate themselves with the Institute of Technology in order that they may continue to progress.

The permanent staff of the diesel plant both worker and supervisory should be trained on the machine themselves.

Such a plant should be designed and built and in its initial years managed and directed by men trained in mass production and equipped with machines with which they are familiar. By men who thoroughly believe in high wages and high production. Men who have proven that under such conditions costs are low, wages are high as a result and great benefits rebound to the whole community; not to the selfish interests of either labour, managements or capital or Government.

Such a diesel plant would provide to the village sources of power long before the great multi-purpose developments can be brought to bear in sufficient amounts to both agriculture and small village industry specifically, as their greatest present lack is power. As the grid comes in they are readily movable to take up their task in more remote villages in ever widening circles.

Such a plant would provide an inexhaustible well of training.

Since the plant would produce useful products, the cost of the training would be nominal and the training would be much greater and sounder than through comparable numbers of Indian technicians going abroad or of foreign experts coming here to teach.

We think financial considerations are also in order.

It takes an investment of 500,000 rupees to yield at 5 per cent the 25,000 rupees necessary to send one man abroad for one year's training. Obviously it would not take the investment of the sums necessary to support very many men abroad to build such a diesel manufacturing plant; a plant in which the training of hundreds of men in every profession, craft and trade would occur with only nominal cost.

We recommend it be financed and built.

Of course we think the sending of Indian technicians abroad and the bringing of foreign experts here is very important.

In providing for the bringing of foreign technicians to India to assist in the process of industrialisation and for selecting Indian industrial technicians for study and observation abroad, the following guiding principles should be rigidly adhered to.

#### (A) Foreign technicians working in India:

(i) There must be general agreement on the part of the officials, Government and/or industrial that there is an important job which needs to be done and the assistance of a foreign technician is required and that he will be fully and effectively utilized.

(ii) There should be positive assurance that the foreign technician will be associated with highly competent Indian counterparts, who will look upon the foreign

technician as one who can assist in exchanging ideas and bringing to the Indian scene additional experience, and assist in formulating programmes.

- (iii) The foreign technician must be established in an environment which will permit him to effectively utilise his full abilities.
- (iv) Before starting to recruit foreign technicians, a thorough description of the job to be done in India should be developed. This is to assure that the foreign technician to be recruited has the highest technical competence required for the special assignment, thus assuring that he will be able to contribute fully.

(B) For the Indian industrial technician to study abroad usually from the highest grades:!

- (i) Before deciding whether or not Indian technicians should be sent abroad, it must be first established that there is a definite job to be done in India which can be better done if a limited number of Indian industrial technicians are given specialised training in foreign countries where experience exists which can be adapted to Indian conditions. It must also be established that the necessary training opportunities do not exist in India.
- (ii) The Indian selected for foreign technical training should understand that selection is based upon his receiving training of a given nature in order to prepare him to give leadership in a specialised industrial field when he returns to India.
- (iii) The institution that is to provide the training in the foreign country must know in detail the nature of the job in India he is being trained to do, so that the training in the foreign country is tailored to provide the greatest adaption to India.

If the above guiding principles are adhered to, there will be need for a lesser number of foreign technicians to be brought to India to accomplish the same purpose, than if they are chosen in violation of these principles. Likewise neither will there be a need for as large a number of Indian industrial technicians to be sent abroad for study. The total number needed of course is dependent upon the rate of industrialization.

### **Restrictions upon Industry large and small arresting and preventing progress**

In order that we might better orient our thinking in the whole field of small industry, we visited towards the end of our trip a co-operative handloom area together with its spinning mill. It is in South India.

We found here, we believe, conditions which point the way to progress in Indian industry. It was an inspiration.

The handloom weavers at present have a tentative return (earnings) of 12 annas per day and put in a long day's work. The co-operative has had to dip into its previous surplus to sustain this return in recent times.

Yet out of this meagre return they have built themselves a dyeing and finishing plant. They have also built an experimental plant for testing better handlooms and are approaching the use of power looms. The better looms permit the society to allow a higher return to those members owning them than the 12 annas because of their greater productivity—a proof positive of the results of modernization. The costs being lower, even with the higher return, proves that without modernization those who use obsolete and costly equipment are condemned to eventual elimination. "The biggest revolution that has happened in the modern world, is the technological revolution which has totally changed the face of the world, and unless we take advantage of modern technology and try to adapt it to the existing conditions in rural India, the country would remain backward."

Even after building out of the funds of their cooperative, a dye house and experimental plant, they have also joined in the building of a fine modern spinning mill. This they did in order to reduce the cost of their material and thereby permit a better return to themselves.

The mill needs but little more on the equipment side to bring it to the highest standards of modern textile practice.

Modern machinery is not enough. Indian industry needs to be set free from those restrictions supported by legislation and regulation which are illogical. These retard and even prevent employment and earning opportunities. One such illogical practice is the system of bonus. As the bonus system operates it prevents the determination of liabilities until a long period of time has passed. No man, family, institution or government can soundly finance itself under such a system. Nor can it plan for the future or the present.

Whether an employee is prosperous or not does not determine the wage per employee should be paid. A worker is entitled to a fair and proper wage for his use of his skill regardless of who employs him.

Adoption of better methods is invariably, through the leadership of successful employers.

These better methods permit his employees to earn more because of greater production. Success should be encouraged not penalised.

This principle stands out in this fine mill. The owners of the new spinning mill are themselves workers, who scrimped and saved from a meagre return to build the mill; a mill which free from restriction, can and should pay a wage of a rupee per hour to its employees. These employees, mostly former village agricultural workers are, for the first time, being employed in the best environments including even air conditioning.

To say that they should be given a bonus on top of a rupee per hour wage, when the owners are themselves workers, earning about an anna per hour, is ridiculous on the face of it.

The present policy governing rationalization is equally damaging.

We observed another mill which, if it is allowed to properly rationalize can operate two shifts of needed production utilizing the number of employees now needed to operate the one shift.

It further denies the employment of at least 25,000 people, who under present Indian conditions are needed to operate over 250,000 additional acres required to grow the additional cotton needed for the extra shift. It denies employment upon the railroads and other means of transportation as well as other ancillary occupations. It further deprives a factory such as Sindri of about 5 per cent of its market; for that much fertilizer should be used in the growing of the cotton.

It seems to us that to stop the processes of modernization and development for the mere purpose of apparently preventing unemployment when in every field of India it needs goods and services such as roads, etc. is short sighted. Especially when in fact modernization creates employment.

Higher wages under it lift the worker above a mere subsistence to a respected consumer of goods of every description. It preserves and enhances India's position in the world as a producer for the world's needs. To prevent it, forces stagnation and retrogression. All this is in the false fear that modernization can take place overnight. When in fact it is relatively slow evolutionary process which takes years and which India should accelerate.

To return to the fine co-operatively owned spinning mill. The mill was first dedicated by the Prime Minister and again by the Minister of Commerce and Industry. We suggest that it be given complete freedom to operate in the most modern manner under the aegis of a very high level board.

For we believe that it can and will point the way. That it can and will be almost a shrine in world's textile progress. We equally fear that without it the poor weavers who created it will be denied its benefits and the mill itself condemned to mediocrity.

### SMALL PLANTS FOR DEMONSTRATION

We believe thoroughly in the decentralisation of industry. It is the best method by which agriculture can be effectively balanced with industry. Individual units of production should be brought to rural areas, not great centres of industry created which syphon population to them. Expansion within existing large centres already overcrowded with consequent degradation of proper living is to be discouraged.

Agriculture in India is not as yet based upon steel implements other than hand tools.

The tractor is emphasized overlooking the very small holdings even after consolidation and completely throwing out of consideration the fact that India has over 40,000,000 installed kilowatts of power in the form of bullock power. Power now most inefficiently utilized but capable of much greater production if the bullock is allowed to work with properly designed steel tools. Power, upon which sound evolution in agriculture can be based and which requires no revolution.

Under present conditions India needs many well tooled small and efficient plants producing agricultural implements. We recommend the establishment of one. The steps are definite. First, the selection of the type of implement and its market; second, the sound



design of the implement, and we mean sound design, including spare parts and repairs the farmer can use right on his farm; third, that the design be proven by rigid field test by fully qualified engineers working in the closest collaboration with actual cultivators and from the cultivators' viewpoint. Satisfaction of either the businessmen involved or of the engineers is a waste of time. Real efficient service to the cultivator alone must govern.

When these steps are completed then and only then should the plant and its equipment be designed and determined. The plant should be designed with the view that the cost of its product will be low, and of a minimum size. Size alone, except in few fields is not a requisite of low cost.

The plant should have a service organisation oriented direct to the cultivator at his location and a sale force directed to filling the cultivators need at the cultivator's location. They will rapidly become the most strident salesmen for better roads.

It should be eventually sold to private enterprise and of course should be operated from the beginning within that concept. To try to help small industry and not to operate within its concept largely deprives the effort of its value.

Why do we stress the above organization procedure? Because in no one of the many plants manufacturing for the cultivator's needs, did we find all elements present and as a general statement they can be said to be practically non-existent.

The ineffectual use and partial waste of 40,000,000 k.w. of power already in being should in itself direct the highest priority to this field.

Another type of situation also merits attention. In the many towns and villages manufacture of articles of the same general type are carried on in very small workshops, many in the homes of the artisans and craftsmen. Many of these are without electrical power with obsolete methods and machines; costs are high, wages atrociously low.

We would recommend the establishment of a small or medium sized plant of modern design and equipment to enter into the manufacture of goods into which the skills of the residents of the village predominately enter.

It should be adjacent to but not in a village to which a modern metalled road does not exist. The road should be built.

The plant should be built upon that road the area along the road should be zoned to control all new buildings and homes along it but the government should only control the type of bazars and homes etc. along it; especially area controls and standards of construction. Under no consideration should it build them, but financial assistance is quite in order. It is axiomatic that along a broad highway leading to a productive economic unit even though through a wilderness, homes, bazaars, services spring up as if by magic.

The government needs only to direct the effort. Its direction, should prevent flocking in of new people to take advantage of high wages and fine working conditions. It would arrest concentration

in big cities if carried out as should be. Decentralisation is by far the finest method of solving depressed living conditions, be they urban or rural.

Many such places exist in India as they do in other lands. Decentralisation can and does solve them. If the effort of government or the company is in the field of support of the industrial plant only and if it does not go on to the building of bazaars and homes etc. only through zoning and setting of standards the worker and his wife will be free to create their own environment, and happiness results. To do the whole job, forcing workers and tradesmen into structures not of their own choosing is objectionable to them and usually leads to failure.

All these plants should be sold to private operators as soon as possible.

We cannot leave this chapter without pointing out again the interdependency of business, big and small, and of government with them. Some industries must by their nature be big; steel and other producers of basic materials should refrain from entering into competition with their customers, small industries. For small industry is the most essential element in the proper fabrication of the basic materials to meet the myriad forms they take in satisfying the needs of the people. Small industry also complements big industry by aiding it through the medium of sub-contracting and service.

Government must provide the atmosphere in which both can work aiding directly only initially and requiring that the responsibilities of all elements of the community be discharged and none favoured over the others.

## CHAPTER VII

### MARKETING AND DISTRIBUTION

CONSUMPTION is the outlet of the grid system of industrial progress. Distribution and marketing are comparable to the transmission lines. Factories are the power plants of industry where the potential values of raw materials are transformed into the kinetics of the mercantile world—fabricated or processed goods ready for consumptive use. When production, distribution and consumption are in unison and working smoothly together, the mercantile and industrial world perform a service for consumers comparable to the electrical field, where the potential power of coal or elevated water is changed into kinetic energy at the power plant and transferred to the consumer through the transmission lines. Then it is utilised through outlets in the homes, factories, shops and pumps of people. When coordination of all these elements fails, then there is economic maladjustment with various names, such as over-production, under consumption, unemployment and so forth.

Efficient marketing and distribution of the products of industry is the next step that India must take if it follows the course to which it is committed—toward greater industrialisation and welfare of its people.

The other chapters of this report are basically in the field of production, with only occasional deviations into that of distribution. This, we believe, is a logical approach to a national problem, because distribution without production is impossible and marketing and consumption cannot be thought of until production is in operation. The nearer they work in unison the better an economic condition.

The team believes that the approaches to the economic problem designed in the preceding chapters can and will form the basis for a prosperous Indian development, provided diligent effort is made to develop markets. There is little use to design better quality goods nor have cooperators finance their industries, nor build technical institutes nor increase production, unless there is a corresponding effort in the field of marketing and distribution.

#### **Production must be geared to market needs**

Man pays for what he needs, whether or not he obtains it. If he actually needs an item, then the lack of it often costs more than the thing itself. The use of inadequate and obsolete equipment costs more in money, time and patience than would the actual purchase of properly-designed modern replacements. Elevating the need of goods and services to a conscious desire for them is worthy salesmanship. Need, however, is often confused with desire. Stimulation of desire without research considering the importance of the particular need is the basic cause of much of the distrust of business by the public.

Production must be geared to market needs. Reiterating needs are of two kinds—latent or felt. When a latent need can be changed into a felt one, then the wheel of production, distribution and consumption start to roll. As long as the needs are latent or unexpressed, production is smothered and distribution is negligible. Quality is usually low—cost is high. The greater the number of needs that are transferred from latent to felt, the more demand there is for service all over the grid of industry.

India has one of the world's largest potential markets, unrestricted by internal tariffs. Europe, with less population, has many tariff barriers and even North America with half the population, has too tariff veins across it. The Indian people have as many latent needs for goods and services per person as any other people, they do not at present, have the felt needs for many of these, but ultimately the total volume of these needs per person should be as great. Man is the only thing that gives value to goods. India's greatest potential for industrial progress is the fact that it has 360,000,000 people that need nearly everything.

When the latent needs of these folks begin to change to felt needs, India will experience perhaps the greatest industrial revolution that the world has ever seen. The stage is set. India herself must make an attempt to create a demand among her people for the products of her men, machines and methods. India has, can and will have a certain percentage of the world export business, but this can never equal more than a small part of the commerce between its own people.

The appropriate Ministry within the Government should begin to create a 'merchandise mart' economic climate. 'Know-how' is largely wasted without 'show-how'. The current international exhibition on Low-cost Housing in Delhi is a demonstration of the type of industrial display that should be encouraged, not only in home-building but in regard to agricultural equipment, household appliances, soft consumer goods, and numerous other products all over the country. Too often the Indian fairs of which there are great numbers, are largely in the field of entertainment and display products and crafts which are very old in form. There are enough good proven products now available in the laboratories and factories of India which, if properly shown, will begin to create an insatiable demand for them and others of improved design. When people want needed things badly enough, they will try to work to earn enough to get them and the basic principle of sales promotion is to keep increasing this desire of people for more and more and better and better products at reasonable prices.

#### **"Made in India" products must be good**

The team found a tendency among Indians to look with disfavour upon goods made within India, and we met many Indians who deplore this attitude. The fact is that the Indian consumer is a discriminating buyer and domestic industrial products offered for sale within the country have too often been of a quality not to give confidence to a buyer. They have not stimulated in him a desire to purchase more of the same or to encourage others to do so, both of which are real fundamentals of successful marketing. The Indian government can well begin to encourage industries to make the name 'India' on

well manufactured products the "hall-mark" for the Indian purchaser. Once this is done, the greatest hurdle in changing latent needs to felt ones will have been crossed and the current of industrial progress can go into high flow. It is useless to consider the industrial development in India unless the manufacturers will be quality and grade-conscious. With the establishment of these fundamentals, there will come a rapid evolution in the consumptive demands from the Indian people themselves. The team saw enough demonstration of this principle in the villages and cities to justify its faith that the Indian consumer will provide an almost inexhaustible market for Indian production, if established grades of needed goods are offered for sale, and repeat orders can be secured of the same grade.

### **Demand and supply should go together**

Demand and supply in India might be considered as two teams engaged in a polo match. When the two sides are evenly matched, which is of great interest to spectators, the game often ends in a draw. When one side is far superior to the other, it is a one-sided affair and the spectators do not consider it an event worth watching. For the purpose of illustration if production materially outruns consumption, there is a serious glut in the market. If consumption outruns production, inflation is the result. A balanced economy results when production and consumption move forward in step with each other.

India has great diversity of climate, with monsoons being the all-controlling factor. But the changing climate of India, from the sub-artic temperatures of the Himalayas to the tropical conditions of the Cape Comorin, presents marketing possibilities of immeasurable depths. Climate is one of the controlling factors in the distribution of many commodities; in others, it is the physical characteristics of the land. These tend to create different needs nearly all of which India has perhaps as great diversity as any country in the world.

In order to keep the industrial grid in balance, so that both the producer and consumer will profit, a few basic suggestions are herewith presented:

#### **(1) *Production must be geared to meet consumers' felt needs expressed by effective demand***

Too often industry manufactures those things that it wants to produce rather than determining what the consumer wants. In a free economy, people buy those things that they desire and not, as a rule, what some manufacturer wants to sell them, unless he has made the necessary fitting of his product into what his customers need and desire. The team found many examples of this in India, where obsolete goods are still being manufactured in spite of the fact that sales resistance was such that the demand for the product had almost worn off and there was instead an insistent request for an improved imported article.

Indian industry, to succeed, must also test its products in the areas where they will be consumed, in order to find whether they will be of real value to the purchaser. As an example, there are millions of antiquated Desi ploughs being used by the Indian farmer.

He is beginning to have a felt need for improvements not only in ploughs but other non-motorized equipment of his bullocks. However, we found practically no effort on the part of industrialists to find what the farmer needs, in order to provide him with efficient equipment to fill his desires. India has many soil conditions which means that no one type of plough, save perhaps to Desi, can be universally used, and yet, the manufacturers told us that they have not been able to break into the Indian market with improved ploughs when, in all probability the reason was that the plough they wanted to sell was not adapted to local conditions. We also found a tendency on the part of the small industrialists to expect the villager to come to him for equipment and repairs rather than for him to go to the villager, to make a sale. We found enough exceptions to this to prove that where the producer makes an honest and serious attempt to meet the consumer's needs he has almost immediately a growing market.

## (2) *Relating consumer needs to present or potential industries*

Indians, in common with other people often come to believe erroneously that goods from far away places are better than those made nearer home. India's economy can make rapid strides as soon as serious attempts are made to relate consumer needs to present or potential industries. An example of this is given in another chapter of this report, in regard to brick for highways. We found in certain areas insistent demand for commercial fertilizers even though the costs involved were exorbitant because of transportation. Within the same area there was abundance of bone and other waste products that could be converted into fertilizer to fill this need, and yet no effort on the part of local industrialists or cooperators existed to perform this service.

According to Indian nutritional authorities, the diet of the nation is deficient during part of the year in 'protective foods' which are surplus during another part of the year. In some other parts of the world, cooperators have often led the way toward food processing and preservation so that the abundance of nature's crops that cannot be immediately eaten are conserved for months ahead. Only in a few instances in our discussions with the industrialists, co-operators and others, did any one bring up the matter of local industries based upon food processing. This is an indigenous industry that might well be the fore-runner for local health and for a rapid increase in employment. The preservation of mangoes, the proper storage of root vegetables, the quick freezing of leafy vegetables, the processing of citrus juice are only four of the multitudes of potential industries that could be rapidly expanded in many areas of India and which have every possibility of a good consumer demand. With India becoming increasingly self-sufficient in food grains there will be a heavy demand for commercial and cooperative storage facilities in interior areas of the country. Another example of a new industry just around the corner. We found a tendency to compartmentalise agriculture and industry. This, we believed, should be corrected because each is inter-dependent on the other and the processing, warehousing and distribution of local foods of this nature offers one of the most important opportunities for a rapid advance in business—for both profit and loss organisations and cooperatives.

### (3) *Uniform quality products*

As mentioned earlier, consumers the world over appreciate uniform quality. This does not mean that every article must be of the top-grade. There can be many grades but each one should be separate and the product sold should scrupulously be classified to adhere to that grade. We found that in certain industrial items which can well be manufactured in large quantities in India, there is an insistent demand for imported goods rather than domestic. The reason was that the purchaser getting an established well graded imported product knew what he was buying, but when he purchased an Indian product, he was seldom sure. We found some notable exceptions of products manufactured in India with a standard grade continuously held. These had in a matter of a few years gained a consumer popularity such that their sales were now well established on a national basis. There is no reason why industry could not manufacture many items that would have immediate acceptance and for which there is already a demand. We found a tendency on the part of many industrialists to say that the field of quality control should be taken over by the Government. Once quality standards and grades are cooperatively determined by government, associations and trades, aided, where proper, by the organizations suggested in this report, then strong steps should be taken to see that labels always conform to the grade. The government must be a partner in the venture but basically, industry must police itself individually and through its trade associations mentioned in Chapter 3 of this report. We also found a tendency for the development of a market for drugs and soft drinks of unknown quality sold in empty containers of a known reputable product. This is an example of the field of quality control into which the government must move and move quickly in order to protect the legitimate Indian manufacturer from such unethical acts.

### **Market News Service**

The multi-purpose Institute of Technology as proposed in Chapter 1 should take the lead in providing the basis for a market news service of great value to the industrialists and consumers alike. The team found almost a total lack of information of any reliability available to industrialist as to where their product was needed or from whence they might get good sources of supply for their plants. One of the most valuable services that can be provided for the small industrialist is to make available to him news of his commodity both as to sales and potential expanding or contracting markets. Today, alone in a small local centre of population he is at his wits end to know what and in what quantities to manufacture. His demand is usually through not an impartial buyer for a middleman who makes an occasional call or perhaps the industrialist takes his completed wares and personally delivers them to a bazar where market facilities are available. In either method the system leaves him at a distinct disadvantage as he is selling into the dark and does not know what happens in the darkness, to his product. We did note that those small plants who had their own salesmen in the field seemed to be doing better. A reliable market news service with reporters in all the principal markets and having contacts with world sources of information would immediately be of great value.

## **Market for Products**

Closely related to the market news service will follow the development of market penetration by progressive Indian enterprisers. We saw enough of the drive of these men to prove that with proper information they will go to work and develop markets. For example, we found the beginnings of a successful pump business as salesmen are beginning to contact agricultural finance co-operatives in the electrical grid areas to find out what prospects there are for pump sales. The oil companies have developed a latent need for kerosene into a potential and active market by sending salesmen on commission into the homes of people even to four storey apartments in the cities. The salesmen will walk up the stairs to fill the lamp and trim the wick. That same type of salesmanship will develop markets for many products all over India. Service must follow sales however and one-shot sales are to be condemned. The selling organization or individual must realize that future sales depend upon quality plus service on the first sale. To sell for instance a farm tool with no spare parts available or one where the cultivator must come to the town to change a plough point because it is riveted instead of bolted, is market suicide. Salesmanship must be looked upon as an honourable profession and one where the seller and buyer can do business and continue as friends. Salesmanship to be sound can only be based upon products which really serve the customer and where continuing service by the distributors is made available to that customer. Provision for sound service at reasonable cost to the customer is the essential basic foundation of industrial selling.

Another example. The team met with a life insurance salesman who had found that the rural market exceeded the urban in his areas for prospects with cash willing to buy insurance. He had worked out a route on roads where he could go by bicycle and was soliciting villagers to purchase life insurance. The results had been too gratifying that he had given up his city clientele and was concentrating on the villager. Enough evidence of this nature was found from other salesmen, merchants and bankers to convince the team that the villagers have increasing amounts of cash and will spend it for worthwhile purchases—including life insurance and other methods of investments for savings.

## **Ability of people to purchase**

We heard many sincere statements in one way or another expressing scepticism as to the ability of the people to buy even when they had a desire to buy. We hold to the belief that the vicious circle of poverty for the small industrialists, his employee, and the millions of other under-privileged people can only be changed by making the circle into a spiral. This analogy was presented to the team by a thoughtful young Indian student and he is right. Prosperity can never come on a rupee per day wage but with increased wages for modern production as mentioned so many times in this report, there will be money for sales of increasing amounts. For example, the team noted in a certain factory visited that five employees out of eight in one shift all had good wrist watches. This was so unusual that we asked some questions and found that those men were making five to seven rupees per day and were doing



what men the world over were wanting to do—buying those things they needed and wanted. Thus the spiral of prosperity was started. They worked and made a product and not only made money enough to exist but to provide work for some one else to provide them with the watches. The “extras” of today are the necessities of tomorrow. They create new jobs and are a bulwark against unemployment.

We found numerous examples of successful enterprises developing new markets and making a good living while performing a service to an otherwise market-wise neglected people. An example; in one small city we met a shirt salesman. He was a retired civil servant who had become frustrated trying to live on his pension and also the idleness did not appeal to him. He had made an arrangement with a shirting sales organisation to provide him with a continuing supply of good medium quality shirting material. He had then hired an unemployed tailor and provided him with patterns for six sizes of shirts. He also made up a sales kit containing sample shirts together with samples of cloth in various colours. He then started a house to house sales campaign for shirts. He timed his visits to call when the family were assembled for meals. Net result in two years he had taken enough orders that he now has three tailors and repeat orders enough to make a good living. All from a market in one of the poorest areas in India.

### **Marketing Channels**

Historically, India's marketing channels have fallen into two great general fields—sales for cash and by barter. The cash field was restricted to a very few commodities as the great majority of the people lived in the villages and very little effort was made to bring products to the village whose sale required cash as a medium of exchange. For millions of villagers cash hardly existed as their services were paid for in commodities. The village potter was given an allocation of rice from producers for his wares, the barber was paid in cereals or other agricultural products when the village harvested its crop, the leather worker traded his tanned hide to others for food or utensils and so it went within a barter economy. The panchayat had certain dealings for cash but little ever circulated in the village. Banks for deposit were not available. Postal services were almost unknown hence again cash was not considered in usual transactions.

The other division of the market was in the cities where the transactions were largely for cash and along regularly established trade lines. Wages were paid in money—the villager arriving in the city for work was often at a distinct disadvantage because of lack of experience in handling cash transactions but he rapidly learned from experience and became part of the city life.

While some individual transactions in the villages are still by barter or traditional payment for service in kind, cash is becoming a medium of increasing importance. The children in the schools are being taught money values in arithmetic; the post office department is rapidly bringing its services which include money orders to the village; roads are being built and with them the petrol station and the roadside dispenser of food and specialities; the process has begun of making cash a regular part of the village life. This means among other things, that the village is ready for increasing business with

other villages and with the city. Money is becoming a common medium of exchange. To see the change in action one has only to watch in parts of India the transition of the grain banks or golas into regular cash cooperatives.

As pointed out in the preamble of this report, the bulk of the potential customers for the new business ahead for Indian industrialists is in the rural areas although the cities themselves have more customers than some great countries. Trade to the cities and within them should be pushed by progressive mercantile methods. With higher wages from efficient industry there is no question but that within a short time modern shopping centres will spring up. Display of products will attract customers and the Indian will do it. For example, the *green* grocers of India are daily showing that with a good product they can make an attractive display. If industry will provide the quality goods at reasonable prices the retailer of India will do the rest.

### **The village no longer self-sufficient**

The day when the village or groups of villages were self-sufficient in their economic needs is passed. They now need pumps, bicycles, motors, household equipment and the like. The village must have special attention as it is rapidly changing from a barter age to a mercantile one with cash as a medium of exchange. Banking must be widely extended as mentioned in other parts of this report; perhaps mobile, in some places. Quality goods built to serve the villagers' needs and not what some manufacturer wants to sell must be developed by research. Here, the multi-purpose Institute of Technology and the School of Design will shoulder much of the research work. Display vans, perhaps from the institute, may well be sent into the rural areas, to acquaint these people with the new world of goods. We observed one such van selling over 120,000 rupees of merchandise a year. The wheel and spindles of Indian small industry will hum when this latent need for goods in the villages is transferred into felt needs and the urge to buy. Perhaps in the whole history of the world there has never been a more rapid transition from barter to cash than is now starting in rural India. This part of the chapter may seem a bit repetitive and overstressed but we found so few industrialists that had ever considered the matter of rural marketing seriously that we felt it must be stressed.

For example with the increase of cash transactions, literacy and postal services to the village there is perhaps the opportunity to develop a mail order business of large proportions. Business initiative on the part of merchants of integrity may well make the village market rapidly a large consumer of industrial products. The matter should be studied by business leaders who believe it in the future of the country. Traditional methods of mail order operations in other countries should be studied and then blended into the Indian pattern of village life and some experiments made. To begin with a display truck would be taken to the village and village fair. Later, as facilities and recognition of the value of service develops, catalogues of dependable wares for the villager, profusely illustrated, could be prepared. The catalogues should be sold, at first, for a small amount and the price reduced from the first order. Experience has shown that this eliminates such waste in the development of a mail order business. There are many other methods

of sales and market development that might be enumerated but that is unnecessary in a general report such as this. The chief thing is to point out that the trend of the times is making the village an accessible market to the rest of India and that business organisations both profit and loss and cooperatives should make careful study of the potentialities and begin to serve it. Industry will prosper or starve as merchandizers perform a service in this market.

### **Export Markets are ever-changing**

Among the many centres the team visited were those of the lac and mica industries. These commodities together with other export products from India are facing a fast changing world of supply and demand. Scientific developments have a determining influence upon the amount of these commodities that can find a profitable or even ready market abroad. Change is the one certain thing about all markets, especially export. The team observed that the Government of India has provided and is contemplating further extension of its scientific research programme for industry. Its great laboratories in many fields are well-staffed and are doing hard work in scientific research. We found that some industries themselves are apparently not either fully cognizant of this availability of help and assistance or else are hesitant to use it. The team believes that the industry itself in these export commodities should shoulder the responsibility of underwriting trade research work and coordinate it with the developments in India's own laboratories and those of the countries where the goods are normally sold. Search should be made for new outlets in other countries and develop new uses in those now buying. Also, as India develops its own industrial life there will be an increasing local demand for these commodities.

Briefly, we were impressed with the lack of leadership shown in many industries in trying to help themselves by searching for new uses and markets at home and abroad. We recommend an immediate industry wide conference in each major export commodity to appraise themselves of the available scientific research findings and possibilities at home. That the industries finance their own organisations to work with purchasers and laboratories abroad in order that they may keep abreast of demand in world's markets. Also, at home these industrial trade associations of the type outlined in Chapter IV keep in constant touch with developments in domestic industry and try to fit the raw commodity to the new demands of commerce and industry. Other commodities in other countries are successfully following this same pattern, notably, the coffee growers of Columbia, South America, where they have even financed their own splendid laboratory and keep trained scientists travelling the coffee trade routes to improve the market and quality.

### **Marketing Service Corporation**

1. Marketing is a two-way street—the seller must make a profit to stay in business and the purchaser must get a serviceable product at a cost within his ability to pay. With this principle in mind of serving both producers and consumers, the overall objective of a programme of industrialisation should be to—

- (a) stimulate needs and market demands;
- (b) assist industries in producing to meet these demands; and

- (c) aid in getting the products into the market channels on to the people concerned.

2. If the above cycle is to start operating and function effectively a number of things may need to be done simultaneously, such as—

- (a) making marketing analyses to determine consumer needs;
- (b) through education and advertising, stimulate consumer demands;
- (c) through market news service assist industries in becoming aware of the consumer demands (covered in prior section);
- (d) provide the industries with the necessary technical help on designs, models, tools and methods and such other information as may be necessary to assist them in marketing desired products, to assure it will meet the demand (Institutes of Technology and the School of Design).

3. Since the stepping up of the industrial process is of paramount importance to India it may be advisable for the Government to establish an autonomous Marketing Service Corporation having the following functions:

- (a) Through direct personal survey, select the consumer demands which can be transmitted to industries for production;
- (b) Work with industries either individually or through trade associations or co-operatives in soliciting their interest in taking up production of the products which have been determined as being in demand.
- (c) Secure orders from the wholesalers and retailers and process such orders either individually or through trade associations and marketing cooperatives.
- (d) To hasten the process of industrialization, it may be wise during the first five years for the marketing service to have funds allocated to it so that it can actually place orders and then process them to the wholesalers and other sales outlets. The requirement to operate as a profit business is paramount.

Once the industrialization process starts working it would be assumed that the corporation would be affiliated with the proposed institutes and that its activity would be then purely service and advisory. The Marketing Service Corporation should start immediately on a modest scale in specified areas and with specific products. As experience is gained it should expand its operations. The Corporation should work closely with the proposed Institutes in both initial planning and operations. The Marketing Service Corporation would be in addition to the Customers Service Corporation outlined for a particular field in Chapter II. There should also be close contact and collaboration between the two.

## Women

Indian women have largely been apart from the mercantile and commercial world in India. Few women are clerks or managers of merchandizing establishment save the small family owned shops. Purchases are traditionally made by men even in department stores.

This marketing report would be deficient if it did not bring forcibly to the attention of its readers the fact that this is changing and probably will change with accelerated speed. In most of the world women are not only the shoppers but the salesmen of goods of many types. With the emancipation of women by the Constitution, with courteous stewardesses on the airlines, with the highly efficient women secretaries in some commercial offices, the die is cast. Millions of other women are ready to do likewise and with the co-educational system of the country getting into full swing the changing place women will be irresistible. India is doing this herself of her own accord we are merely observing the transition.

In the field of marketing and providing for the sales of industrial production the changing status of women is perhaps the greatest factor to be considered save the one of the change from barter to cash in the village. Women traditionally buy more than men if given the opportunity. With Indian women receiving pay as workers in the professions and industry a whole new world of market possibilities opens up for the merchant. Sweden and Japan present examples of how this process changes traditional merchandizing.

## Conclusion

Back to the original comparisons at the beginning of this chapter. The facilities for installing the power plants of industry are available through industrial development. The transmission lines of distribution can be built from within the Indian economy and the outlets for the use of power that can change it from potential to kinetic can be multiplied by acceleration. The marketing of building materials for new reasonably priced village homes built from indigenous materials; the salesman of shirts with his three employees; the driver of the experimental van; the woman clerk in the department store; the merchant who displays and sells the quality products of industry are all important builders of both man and stable economy. Another part of this report stated a fundamental truth of economics—you cannot divide what you have not produced; we add you cannot continuously produce unless you sell.

## CONCLUSION

WE have confined ourselves in the writing of this report to the broad aspects of those things which we believe merit the greatest consideration.

In the field of agriculture, which necessarily was given first development priority, good progress is being made. We found, however, that the rate of development within the field of small industries is much slower than the rate of development that can be attained.

In the various chapters of this report we have recommended a number of measures, all intended to eliminate difficulties and to foster improvement. The measures recommended vary in character and include the setting up of institutions and production units as well as suggestions in the policy of assistance and encouragement.

The recommendations in the preceding chapters are those which to us are the ones of first importance. They cover by no means all of the fields where effort is desirable or required. They come in the category of first things first.

They represent, we are sure, such basic fundamentals, that if they are brought to successful fruition they will accelerate and enhance progress now being made.

We wish to point out that an excellent plan badly executed is no plan at all, while a good plan brilliantly and unselfishly executed yields abundance.

Throughout our tour in all places and among all people, we met with the utmost in courtesy, cooperation and consideration.

To all we extend our sincere appreciation.

Made at NEW DELHI, INDIA,  
27th March, 1954.

SVEN HAGBERG, *Chairman*  
RAMY ALEXANDER  
HANS GRUNDSTROM  
RAYMOND MILLER  
C. LEIGH STEVENS

## **BIOGRAPHICAL DATA ON MEMBERS OF THE INTERNATIONAL PLANNING TEAM**

### **Mr. Sven Hagberg**

Mr. Sven Hagberg, of Stockholm, Sweden, is presently both Vice-Principal and Acting Principal of the Swedish Government's Institute for Higher Education in Trades and Handicrafts (Statens Hantverksinstitut).

Mr. Hagberg's previous positions were: Head of Chemical Department of the Institute and as such directed educational, consulting and research work for small industries and handicrafts 1944—53; General Technical Manager for industries specializing in Wheat and Rye products, and Building Materials, 1931—1944; Superintendent and Chief Chemist for Rice, Oats, Wheat and Rye Mills, and a Starch Factory, 1923—31; factory superintendent for the manufacture of Fertilizers and Heavy Chemicals 1917—23; general technical experience in Machine Shops, Pulp and Paper Mills; made studies for Swedish Government in U.S.A., Great Britain, France and Germany.

### **Mr. Hans Grundstrom**

Mr. Grundstrom, of Stockholm, Sweden, is Managing Director of The Swedish Federation of Small Industries and Crafts, (Sveriges Hantverks-och-Smaindustriorganisation) a post he has held since 1950 after the two previous years as Vice Director. The Federation, which has 60,000 members, consists of about 50 all-Sweden Trade Associations, and 500 local Associations. It represents Small Industry Crafts and artisans in dealing with Government and other authorities, as well as difference sectors of the business community as a whole.

Mr. Grundstrom is also a member of the Government's Board of Building Control; member of the Government's Board for Promotion of Industrial Activity and Export; member of the Swedish Central Committee for Productivity Research.

Other professional positions Mr. Grundstrom has held include: member of the Government's Board of Price Control, 1949—53; member of the Swedish Board of Standardization 1948—52; Managing Director of Gevleborgs lars foretagareforening, a trade development association, 1947-48; Consultant to Gevleborgs lars foretagareforening 1938—1947; member of an investigation team for development of small industry and crafts in northern Sweden. Mr. Grundstrom has also made studies in Switzerland, Germany, Denmark and Czechoslovakia of development and organization of small industry and crafts.

### **Mr. Ramy Alexander**

Mr. Ramy Alexander, of the U.S.A., is a consultant in the development of handicrafts and specialized small industries.

Prior to coming to India, Mr. Alexander spent the last seven years in Italy as the top executive for Handicraft Development Inc., an American non-profit corporation. In this capacity he worked for the development of Italian handicrafts and small industries in the fields of gift ware, decorative arts and home furnishings. He represented Handicraft Development Inc. on the Board of Compagnia Nazionale Artigiane in Rome and as such was Vice-President in charge of production for Compagnia's export programme. Mr. Alexander has also had extensive experience in financial planning, designing and assisting of foreign buyers in the field of handicrafts, and planning and organization of handicrafts exhibitions in Italy and other European countries. Also he has had extensive experience in the import-export business both in U.S.A. and Europe.

### **Mr. Raymond W. Miller**

Mr. Raymond W. Miller, of the U.S.A., is internationally known as one of the foremost authorities on Cooperatives. Among his many professional assignments in this field have been: Consultant to the Technical Meeting on Cooperatives in Asia and the Far East at Lucknow in 1949; Consultant to the Technical Meeting on Cooperatives in Asia and the Far East at Kandy, Ceylon in 1954; Trustee, Transportation Association of America; President and General Counsel, American Institute of Co-operation, 1945-49.

He is the author of "Cooperatives in Asia"; "Farm Cooperative Corporate Association"; "Asian Problems—Self-Help the Solution" (American Institute of Cooperation); "Failure of Farm Cooperatives" (Harvard Business Review) and "Most of the World's Problems are Rural" (Harvard School Bulletin).

In the field on marketing, Mr. Miller has also gained international recognition. He is the author of "Keepers of the Corporate Conscience" (Island Press); "Road to Market Series" (Public Relations Research Corporation); Co-author "Marketing Manual" and "Public Relations" (Ronald Press, New York).

Mr. Miller is presently a consultant to the Food and Agricultural Organization of the United Nations, a post he has held since 1949. He is also President of World Trade Relations, Inc., Montreal, Canada; Trustee of American University, Washington, D.C., Member of the Advisory Board on Public Relations, University of Maryland; visiting lecturer on Public Relations, Harvard Graduate School of Business Administration; Member of the American Marketing Association, former President of its Washington D.C. Chapter; formerly Vice-President of the California Walnut Growers' Association; Trade Consultant, International Rice Commission, Bangkok 1949.

In 1953 Mr. Miller was given the Hall of Fame Award for work in Marketing and Distribution by the Boston Conference of Distribution.

### **Mr. C. Leigh Stevens**

Mr. C. Leigh Stevens, of the U.S.A., since 1924 has been the head and owner of his own firm in the professional practice of Industrial Management Engineering—the C. L. Stevens Company of Maryland. He began professional work in this field in 1919. Mr. Stevens is also Special Lecturer on the faculty of the Harvard



Graduate School of Business Administration, *instructing industrial managers and top administrators on the industrial process, management organization, and human energy.*

In his private consultation work, Mr. Stevens applies a widely used mathematical formula, which he developed, on the application of human energy to the industrial process. His clients,—which number in the hundreds and are in every field of American industry—have achieved both the reputation of paying the highest wages in their respective fields along with the lowest production costs.

In addition to this type of industrial consultation work, Mr. Stevens has done extensive work in management consultation for some of America's largest corporations determining for their use proper organizational structure for efficient overall management.

Some of Mr. Stevens' other outstanding professional assignments have been: Special Adviser on agricultural equipment to the Director General of the Food and Agriculture Organization of the United Nations, 1949-54. Industry Member of the Tripartite (Public, Labor and Industry) Southern Textile Commission 1945-47. This Commission determined wage and working condition structures which have resulted in making the American southern textile industry the foremost in low cost, high production and high wages on a world comparison basis. In determining proper protective conditions for labor at work, the Commission, in a unanimous decision, ordered that the practices recommended by Mr. Stevens' firm be followed.

He was Special Advisor to the Chairman of the War Production Board, first, on the supply of tools and equipment for American agriculture and second, as the organizing and operating head of the Smaller War Plants Corporation, directly under its Chairman, 1942—1944. This Corporation developed, expanded and protected the productive capacity of small business in the war effort.

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